

VERIFICATION REPORT

AGRICULTURAL POLICY REFORM PROGRAM

Tranche III

Policy Benchmarks for Accomplishment

by June 30, 1999

Submitted by

The Government of Egypt

to

The United States Agency for International Development,

Cairo

July, 1999

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With the Technical Assistance of the MVE Unit of APRP

Abt Associates Inc.

EQI MSI

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LIST OF ACRONYMS

AC	Affiliated Company
ACDI	Agricultural Cooperative Development International
ADALA	Arabic word for “justice”; NGO to promote ESAs and provide them with TA.
ALCOTEXA	Alexandria Cotton Exporters Association
ALEB	Agricultural Led Export Business
APCP	Agriculture Production and Credit Project
APRP	Agricultural Policy Reform Program
ARC	Agricultural Research Center
ATUT	Agricultural Technology Utilization and Transfer (USAID funded project)
BCWAR	Branch Canal Water User Association
BOT	Build, Operate and Transfer
CAA	Central Audit Agency
CAAE	Central Administration for Agricultural Economics
CACU	Central Agricultural Coops Union
CALCOT	California Cotton
CAP	Compliance Action Plan
CAPC	Central Administration for Pest Control
CAPMAS	Central Agency for Public Mobilization and Statistics
CAQ	Central Administration for Plant Quarantine
CAS	Central Administration for Seeds
CASC	Central Administration for Seed Certification
CASP	Central Administration for Seed Production
CATGO	Cotton Arbitration and Testing General Organization
CBE	Central Bank of Egypt
CIDA	Canadian International Development Agency
cif	Cost, insurance and freight
CIS	Commonwealth of Independent States
CIT HC	Cotton and International Trade Holding Company
CMA	Capital Market Authority
CN	Calcium Nitrate
COMESA	Common Market for Eastern and Southern Africa
COP	Chief of Party
CSPP	Cotton Sector Promotion Program (GTZ-funded)
CY	Calendar Year
DEPRA	Development Economics Policy Analysis Project
ECIS	Egyptian Company for Industry Support
EE	Eastern Europe
EE/NIS	Eastern Europe / Newly Independent States
EEPC	Egyptian Export Promotion Center
EGASEED	Egyptian Agriculture for Seed

EIA	Environmental Impact Assessment
ELS	Extra long staple cotton (Gizas 45, 70, 76, 77)
EMEPAC	Egypt and Middle East Private Agribusiness Company
EPIQ	Environmental Policy and Institutional Strengthening IQC
ESA	Employee Stakeholder Association
ESCO	Etablissement Industriel Pour la Soie et le Coton
ETMF	Egyptian Textile Manufacturing Fund
EU	European Union
FAO	Food and Agriculture Organization (UN)
fob	Free on board
FSRU	Food Security Research Unit (APRP)
FY	Fiscal Year (July 1, 1998 to June 30, 1999 for GOE)
GARPAD	General Administration for Reclamation, Projects, and Agricultural Development
GATT	General Agreement on Tariffs and Trade
GIS	Geographic Information System
GOCEI	General Organization for Export and Import Control
GOE	Government of Egypt
GTZ	Deutsche Gesellschaft fuer Technische Zusammenarbeit
HC	Holding Company
HC-RFM	Holding Company for Rice and Flour Mills
HC-SWRMC	Holding Company for Spinning Weaving and Ready Made Clothes
HEIA	Horticultural Exports Improvement Association
IAS	Irrigation Advisory Service (of MPWWR)
IBTCI	International Business and Technical Consultants, Inc.
IFPRI	International Food Policy Research Institute
IIMI	International Irrigation Management Institute
IIP	Irrigation Improvement Project
INPIM	International Network on Participatory Irrigation Management
IPM	Integrated Pest Management
IPO	Initial Public Offering
JV	Joint venture (company)
LS	Long-staple cotton (Gizas 75, 85, 86, 89)
MALR	Ministry of Agriculture and Land Reclamation
MD	Managing Director
MEFT	Ministry of Economy and Foreign Trade (former)
MEIC	Ministry of Economy and International Cooperation
MHNC	Ministry of Housing and New Communities
MHP	Ministry of Health and Population
MLS	Medium long staple cotton (Gizas 80, 83)
MOU	Memorandum of Understanding
MPE	Ministry of Public Enterprise
MPWWR	Ministry of Public Works and Water Resources
MTGOP	Misr Gulf for Oil

MTS	Ministry of Trade and Supply
MVE	Monitoring, Verification and Evaluation Unit (APRP)
NBE	National Bank of Egypt
NGO	Non-governmental Organization
NOBSEED	Nobaria Company for Seed Production
O&M	Operations & Maintenance
PAU	Policy Analysis Unit
PBDAC	Principal Bank for Development and Agricultural Credit
PD	Presidential Decree
PEO	Public Enterprise Office
PMU	Program Management Unit
PPC	Program Planning Committee (of APRP)
PVP	Plant Variety Protection
RDI	Reform Design and Implementation (APRP Unit)
RMC	Ready Made Clothes
RMG	Ready Made Garments
SCC	Sugar Cane Council
SCWG	Sugar Cane Working Group
SFD	Social Fund for Development
SIPRE	Support to Intellectual Property Rights in Egypt
STPU	Strategic Thinking and Planning Unit
TAMIS	Technical and Administrative Management Information System
TCC	Textile Clothing Consultants bv (Netherlands)
TCF	Textile Consolidation Fund
TMT-HC	Textile Manufacturing and Trade Holding Company
TRIPs	Trade-related Aspects of Intellectual Property Rights (CATT)
UPOV	Uniform Performance of Variety
USAID	United States Agency for International Development
VDCS	Voice Data Communication System
WHO	World Health Organization
WQS	Water Quality Standards
WTO	World Trade Organization
WUA	Water User Association
WUU	Water User Union

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There are individuals too numerous to name who gave their time and effort to make information about diverse topics available to the staff and consultants of the MVE Unit. Some of these individuals hold high positions in the Government; many are in the private sector. All of them have busy schedules. Many of these individuals are named in the benchmark sections below; some are not. To all we extend our gratitude for their cooperation.

PREFACE

In this critically important policy reform program, the MVE team strives to produce verification reports that are both accurate and fair-a difficult task. This tranche III report is the fourth major verification report produced by the MVE Unit of APRP.

The task of verification has changed considerably in Tranche III. The benchmarks now focus more on actual policy reforms and guidelines and less on studies, although studies continue to be an essential part of the process of benchmark development. In addition, each benchmark is now accompanied by one or more indicators, which clarify the required accomplishments.

The MVE Unit is aware of its delicate position, providing technical assistance in verification to the Government of Egypt and providing its best assessment of benchmark accomplishment to USAID. The constructive dialogue between the Government of Egypt and USAID could be a victim of overzealous interpretation of these benchmarks. This dialogue can only be maintained if both sides have confidence in its integrity and fairness. Finally, the purpose of APRP is to achieve real benefits for the people of Egypt, not only accomplishment of benchmarks and a cash disbursement.

**Gary Ender
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EXECUTIVE SUMMARY

The Government of Egypt made significant progress in achieving the policy reform benchmarks of tranche III of APRP. Of the 29 benchmarks, 18 were accomplished or exceeded, and only two showed no progress. In four of the five policy areas, there were more benchmarks accomplished or exceeded than partially accomplished or no progress made. One benchmark could not be verified.

1. Prices, Markets and Trade

The most significant achievement of the GOE this year in this area was in its continued liberalization of seed cotton marketing (benchmark A3). Participation by private seed cotton buyers and private exporters increased over 1997/98. Private traders delivered 28 percent of the seed cotton crop to the gins, as compared to 6.5 percent in 1997/98, and private exporters made commitments to ship 27 percent of lint exports in Egypt's second best export marketing season during the 1990s.

In contrast to the bright lint cotton export picture, the spinning industry and yarn exports faced a very difficult 1998/99 season. Minimum yarn export prices were lowered relative to earlier years but retained by the TCF (A2). Its Commercial Committee continued to set minimum prices; yet most private and some public sector spinning companies began to export yarn at prices below the TCF minimum prices in order to remain competitive. The public textile companies' scope for lowering yarn export prices further is restricted by the threat of major importing countries' imposing anti-dumping penalties on Egyptian textile products. As a general backdrop to problems of export competitiveness, pegging of the Egyptian pound to the increasingly strong U.S. dollar made it more difficult to export.

GOE continued to work with APRP towards making cotton lint imports from other countries a viable alternative to expensive, high-quality locally produced lint (A5). There was major progress toward achieving the benchmark on specifying criteria for doing risk assessments on cotton lint produced in other countries. It is important to push ahead on finalizing and disseminating these criteria to prospective importers, as the domestic spinning industry will likely require cotton lint imports in 1999/2000 to continue operating at a level where 4.0 million lint kentars are required as the minimum raw material input.

The only marketing benchmark affecting the fresh produce trade (A1) was fully accomplished. The GOE has adopted and implemented simplified procedures to facilitate the entry of refrigerated containers for use in produce exports. An MVE survey of exporters showed that they are well aware and appreciative of GOE efforts to facilitate their access to reefer containers. Finally, the Ministers of MALR and MTS supported a lower tariff on imported rice (A4), but by June 30, 1999 the Ministry of Finance had not revised the tariff, which remains at 20 percent.

B. Private Investment and Privatization

There was significant progress this year toward privatization and greater private investment. Five public sector rice milling companies were sold to their workers and managers organized in ESAs (B4). The ADHC successfully completed three privatizations during tranche III (B7). Although there were no completed privatizations of public textile companies (B2), MPE has prepared two spinning and weaving

companies (and three public ginning companies) for privatization, and public calls for bids are expected soon. Negotiations are under way regarding leases of one public sector spinning company and a joint venture spinner.

In support of textile industry privatization, substantial progress was made toward developing guidelines for leasing and management contracts (B6). MPE may be able to complete this process, during the coming weeks. These guidelines will help public spinning and weaving companies that wish to explore alternative privatization methods to IPOs, sales to anchor investors, or sales of shares on the stock market.

While there were no privatizations of textile companies, there was evidence of impressive private sector investment in ginning and spinning, which generated about 2,500 new jobs during tranche III (B3). In conducting a near-census of private spinners, MVE discovered that these companies cluster in three groups: 1) recently privatized spinners; 2) new, smaller companies spinning medium to high counts; and 3) spinners of various types of cotton waste into low counts. The latter two groups were largely unknown before MVE's survey. This private investment reflects the perception among private investors that policy reform in the cotton/textile subsector is irreversible, leading to new opportunities to create jobs and increase exports.

MTS, with APRP/RDI assistance, made a strong start in launching its program of privatizing joint venture agribusiness companies (B5), where public ownership is partial, ranging from 1.7 to 97 percent. Two completed privatizations and one partial privatization during tranche III will likely be followed by many more privatizations of agribusiness joint venture companies. MTS is in the process of establishing a PEO-type unit to expedite privatizations in the future.

Although there are informal, anecdotal reports of reductions in the slow-moving textile inventory of GOE spinning and weaving companies, MVE was unable to obtain factual evidence of this, making it impossible to verify the benchmark (B1). There is evidence, however, of a large reduction in lint cotton inventories held by public sector cotton trading companies since September 1, 1998, the opening of the 1998/99 cotton marketing season.

3. Agricultural Land and Water Resource Investments, Utilization and Sustainability

The GOE accomplished all of its objectives in these benchmarks (C1-C8) and exceeded two of them (C3 and C5). Irrigation efficiency and effectiveness are likely to be substantially improved when these new policies are implemented nation-wide. The activities in this tranche provide the necessary foundation to improve water management: by using flow rather than volume measurements, through new policies for free-flowing groundwater in reclaimed desert areas, through participation of farmers in water user associations at the branch canal level, with support from MPWWR through an institutionalized IAS, and with more useable irrigation water through intermediate drainage reuse.

The MPWWR and MALR deserve special mention for their cooperation at several levels in implementing the pilot activities to save water in the cultivation of both rice (through the use of short-season varieties and coordinated water management) and sugarcane (through the use of gated pipes and laser leveling). These activities are the forerunners to the upcoming further cooperation in water management by matching water supplies and demands in the new era of farmer choice of cropping pattern. The MPWWR also took major steps in addressing water quality issues by drafting important revisions to Law 48 of 1982.

D. Agricultural Sector Support Services

The GOE accomplished three benchmarks for formulating new policies in the areas of: support of commodity export associations and organizations (D2); wastewater reuse (D3); and **pesticide registration (D7)**. **The Government's new approach to supporting trade associations is one key step in helping Egypt achieve its export goals. The new policy in wastewater reuse will make it possible to use treated wastewater to produce useful non-food commodities. The policies on pesticide registration are consistent with the Government's remaining critical role in providing regulation and inspection in matters pertaining to health and safety, while allowing the private sector to provide goods and services.**

The Government made substantial progress in the following areas: establishing a policy and providing model contracts for contract farming (D1); establishing regulations that are consistent with international norms to protect plant breeders' rights (D4); **and establishing a policy to support private sector research and extension (D8)**.

The People's Assembly did not enact the draft seed law of 1997 (D5). The Government did not succeed in establishing a new policy for private holders of remote reclaimed land to import and test varieties of **Hirsutum Cotton (D6)**.

5. Food Security and Poverty Alleviation

The Government is proceeding well with revising the criteria for holding a ration card; the one benchmark in this area was accomplished. These steps will ultimately lower the cost of the food subsidy program and target its benefits better to the needy.

SUMMARY OF ACCOMPLISHMENT

Benchmark	Level of Accomplishment			
	Exceeded	Accom - plished	Partial	No Progress
A. Prices/Markets and Trade:				
A1. Refrigerated containers The GOE will adopt and implement simplified procedures to facilitate entry of refrigerated containers (reefers) for use in exports of fruits and vegetables.		X		
A2. Cotton Yarn Exports The GOE will ensure that private exporters of cotton yarn are allowed to export at freely negotiated prices.		X		
A3. Freely Negotiated Cotton Prices The GOE will take further steps toward a competitive free market for cotton to ensure that private sector traders are able to buy and sell seed cotton.		X		
A4. Import Tariff on Rice The GOE will promote market efficiency by reducing the import tariff on rice to a maximum of 10% by June 30, 1999.			X	
A5. Phytosanitary Regulations for Cotton List Imports The GOE will issue new regulations that specify the criteria for a region to be allowed to export cotton lint to Egypt. The criteria will be based on acceptable phytosanitary risk.			X	
B. Private Investment and Privatization				
B1. Inventory Disposal * The Textile Holding Companies will allow their Affiliated Companies (AC's) to value and sell obsolete, stagnant and slow-moving excess inventory at market values in preparation for privatization.				
B2. Privatize Three Spinning & Weaving AC's			X	

Benchmark	Level of Accomplishment			
	Exceeded	Accom - plished	Partial	No Progress
The Textile Holding Companies will privatize at least three spinning and weaving affiliated textile companies.				
B3. New Private Sector Jobs The GOE will take measures to improve the enabling environment for private investment in the cotton textile sector so as to ensure that at least two thousand new private sector jobs are created by private enterprises engaged in cotton ginning and spinning.		X		
B4. Rice Mill Privatization The GOE will privatize one public sector rice -milling company or a majority of the individual units (rice mills) thereof. (This is a carryover of the unmet portion of Tranche II Benchmark B.4)	X			
B5. Joint Venture Privatization The GOE will privatize at least 15 joint venture agribusiness companies by June 30, 1999.			X	
B6. Leasing and Management Contract Guidelines The GOE will publish leasing and management contract guidelines to regulate the privatization of public textile companies.			X	
B7. Privatization of Agricultural Affiliated Companies The Agricultural Development Holding Company will privatize at least three agricultural affiliated companies by June 30, 1999.		X		
C. Agricultural Land and Water Resource Investments, Utilization and Sustainability C1. Nile Water Flow Measurement GOE (MPWWR) will implement policies and procedures to shift from distributing Nile River water		X		

Benchmark	Level of Accomplishment			
	Exceeded	Accomplished	Partial	No Progress
based on water levels to distributing water based on water volumes using the Main System Management Telemetry System at main canal intakes, barrages on the Nile River and division points between Directorates for enhanced irrigation operations and decision making.				
C2. Groundwater The GOE (MPWWR) will adopt policies and procedures for reducing water loss and land degradation due to improper operation and management of free-flowing groundwater in the reclaimed areas of the Western Desert.		X		
C3. Branch Canal Water User Organizations The GOE (MPWWR) will decree a policy and initiate an action program for formation of water user organizations at the distributary and branch canal levels.	X			
C4. Irrigation Advisory and Support Service The GOE (MPWWR) will institutionalize an Irrigation Advisory and Support Service in the MPWWR.		X		
C5. Sugar Cane Water Use Policies GOE (MPWWR and MALR jointly) will designate two areas of private commercial sugar cane growers and promote improved water management efficiency in Upper Egypt.	X			
C6. Rice Water Use Policies The GOE (MPWWR and MALR jointly) will adopt policies for the substitution of short duration rice varieties for long duration rice varieties among private commercial growers and for changing water scheduling to achieve optimal use of water for rice production.		X		
C7. Intermediate Drainage Water Reuse				

Benchmark	Level of Accomplishment			
	Exceeded	Accom - plished	Partial	No Progress
<p>The GOE (MPWWR) will establish an intermediate drainage water reuse program for the Bahr Bagar Drain as a model for other areas.</p> <p>C8. Law 48 on Water Quality</p> <p>The GOE (MPWWR) will revise Law 48 of 1982 governing water quality management to more effectively control discharge of wastes and wastewater into the Nile and its waterways.</p>		X		
<p>D. Agricultural Sector Support Services</p> <p>D1. Contract Farming</p> <p>The GOE will adopt and implement a policy for contract farming to protect both farmers and contracting firms.</p>			X	
<p>D2. Commodity Export Associations and Organization</p> <p>The GOE (MoTS) will revise its policy to work with private trade and industry associations in addition to private firms. This will channel GOE support and information to private trade or commodity associations and organizations to promote Egyptian exports.</p>		X		
<p>D3. Wastewater Reuse</p> <p>The GOE will establish a policy to allow the owner/operators of private Build, Operate and Transfer (BOT) wastewater treatment plants adequate quantities of land for cultivation of long term crops.</p>		X		
<p>D4. Plant Breeders' Rights</p> <p>The GOE will issue: 1) regulations and procedures on Plant Breeders' Rights in accord with the relevant Uniform Performance of Variety (UPOV) convention; and 2) regulations for exclusive release of new seed varieties and inbred lines to private companies and</p>			X	

Benchmark	Level of Accomplishment			
	Exceeded	Accom - plished	Partial	No Progress
<p>cooperatives. These regulations will include a competitive bidding process with safeguards to ensure that one firm cannot gain access to a large percentage of new seed varieties.</p> <p>D5. Draft Seed Law of 1997 Enactment</p> <p>The People's Assembly will enact the draft Seed Law of 1997. (This is a carryover of the unmet portion of Tranche II Benchmark C.3)</p>				X
<p>D6. Hirsutum Cotton</p> <p>The GOE will allow private sector companies which have remote reclaimed land to import Hirsutum cotton varieties for testing in those lands, pending evaluation of current trials by the Cotton Research Institute, ARC.</p>				X
<p>D7. Pesticide and Pesticide Company Licensing</p> <p>The GOE will revise and reissue open and transparent regulations to register pesticides and will issue regulations to license pesticide companies and applicators. This benchmark will be completed by June 30, 2000. Verification indicators are set for June 30, 1999.</p>		X		
<p>D8. Support of Private Sector Research and Extension</p> <p>The MALR will implement a phased plan for support and/or transfer of specified research and extension activities to the private sector. The plan will include at least:</p> <p>a) Specification of the research and extension functions which the public sector will enable the private sector to provide in one pilot governorate.</p> <p>b) Administrative and management structures and rules to ensure MALR inspection, certification, licensing and quality control for services and information offered by the private sector.</p>			X	

Benchmark	Level of Accomplishment			
	Exceeded	Accom - plished	Partial	No Progress
E. Food Security And Poverty Alleviation E.1 Ration-Card Holders System The GOE (MoTS) will revise the criteria and procedures of selecting ration card holders in order to target the existing ration system to needy people.		X		
TOTALS	3	15	8	2

* The MVE Unit has not been able to obtain the required data to verify this benchmark.

A. PRICES, MARKETS AND TRADE

Policy Benchmark

A1. Refrigerated Containers

The GOE will adopt and implement simplified procedures to facilitate entry of refrigerated containers (reefers) for use in exports of fruits and vegetables.

Verification Indicator(s)

A1.1 The GOE will publish procedures through appropriate channels that enable and inform exporters of fruits and vegetables to bring refrigerated containers on a duty free basis up to their farms, factories or packing sheds for direct loading and export.

Method

The MVE unit hired a local consultant, Dr. Effat Abd El-Hamid, to carry out the verification of this benchmark jointly with the MVE team. She conducted an informal limited survey of horticultural crop exporters. A list of the exporters' names, size and type of activity is available in the annex. The population of exporters was classified into three groups -large, medium and small exporters -and a small sample of 10 companies and persons was selected and interviewed. Policy makers were also interviewed. In addition, the consultant participated in a related workshop (details below).

A set of questions was prepared to be used in the interviews. In addition to the awareness of the exporter of the simplified procedures, the questions covered the areas of employment, training, coolers, transportation problems, refrigerated transportation, exporting products, sources of information, and government procedures in the export process.

The main objectives of this survey were:

- To understand the role of the Government in simplifying export procedures
- To know the degree of exporters' awareness of new laws and procedures
- To discover the role of NGOs and government agencies in disseminating information to exporters
- To provide other suggestions for enhancing exports

Analysis and findings

Background and Legal Framework. In spite of the opportunities offered by the GATT agreement allowing liberalizing international trade, Egyptian exports have not benefitted. The competitiveness of Egyptian goods and services is less than that of developed countries and some developing countries.

Prior to Law 1 of 1998, a customs deposit had to be paid for each container (empty or full) leaving the sea port. These deposit payments were refunded when the containers were returned under the duty draw-back procedure, but the process was time-consuming and cumbersome. As a result, many, if not most, imported containers were unloaded in the port and were exported empty. This problem was particularly acute for refrigerated containers that are critical to support the GOE goal of expanding exports.

Law 1 of 1998 now allows private trucking companies (or shipping lines) to establish bank guarantees to cover the customs duty deposit. Customs agents now monitor container numbers leaving the port against the bank guarantees, with no cash transactions required unless the container does not return to the port. The state-owned agencies did not offer this service (bank guarantee) for their export customers, and unofficial private agents (who provided many of the services that the state-owned agencies would not provide) lacked the legal stature to obtain bank guarantees. Law 1 revised Law 12 of 1964, which created state monopolies for port services. Law 1 has opened the door for private investment in port terminals and private provision of port services. It allows private companies to get licenses for owning vehicles, stevedoring, shipping agency services for foreign vessels, performing container handling activities, and building warehouses and dry docks in ports. Relevant decrees in Law 1 of 1998 issued by the MTS cover the following:

- Decree 30 covers the conditions and controls governing licensing of private companies, among other things, as shipping agents, as owners and operators of storage and warehouse activities, and as owners and operators of container handling facilities.
- Decree 31 covers the fees charged for licenses for bulk goods (LE 1 per ton) and containers (LE 20 per container).

Copies of these decrees are available in the annex.

Workshop on Transport and Logistical Constraints. MALR and MTS have both been concerned with export issues. In this regard, ATUT, DEPRA, and APRP organized an important workshop, "The Main Constraints of Transporting and Handling Egyptian Horticulture Crops", which was held at Mena House Hotel on May 18, 1999. The Deputy Minister of the MTS, Mr. Ayman Abdel Ghaffar, opened the one-day workshop.

Richard Magniani of RDI/APRP noted that Law 1 of 1998 set the stage for more competitive shipping. He highlighted the problem of refrigerated containers, and mentioned that a bank guarantee to customs now allows an importer or exporter to take a refrigerated container from a port upcountry for delivery or loading of produce.

Maurice Thome of DEPRA outlined the main findings of a soon-to-be-completed DEPRA study on comparative transport costs and problems in Eastern Mediterranean countries. Egyptian rates for both sea and air freight are on the middle to lower end compared to competitors. Landing and airport handling charges are similar. Egypt has high "apron" charges, which refers to freight handling. Furthermore, the cold chain is inadequate in Egypt

relative to regional competitors. Containers take 2-3 days to clear the port for exports, but they take 5-20 days for imports.

Kelly Harrison gave the ATUT presentation. Within 10 years, he anticipates that Egypt could export about \$90 million worth of fresh horticultural products (outside of the traditional commodities) per month during the EU off-season, mainly October-May. In volume terms, this would approach (and in a few peak winter months exceed) 100,000 mt/month. Investment will be required (in new lands production, post-harvest handling, cold chain) to make this a reality, but Harrison argues that these levels of exports are coming. These produce exports (of strawberries, melons, green beans, etc.) will meet EU standards for quality, value for money, flavor, variety and firmness/ripeness. He stressed how delicate these "living, respiring organisms" are and how post-harvest handling has to be greatly improved and how transit temperatures must be held constant from field to market. Breaks in the cold chain, which currently occur at the Cairo and Alexandria International airports, must cease for Egypt to meet EU quality standards. EU consumers will not take wilted, degraded produce that has been handled roughly or left on hot tarmac runways (outside of the cold chain) in the export process. As Harrison said, the cold chain is only as strong as its weakest link." Produce needs to make it from field to aircraft in 12-24 hours and from field to sea vessel in 24-72 hours to prevent deterioration and loss of market value.

The workshop group reports were in general agreement with the constraints list provided by APRP. A few disagreements were offered by some public sector officials, who tried to minimize the extent of the problems caused by the inspection process, particularly on imported foodstuffs in refrigerated containers. Points of disagreement focused on the availability of reefer containers and generator sets and the extent of difficulties associated with certificates of origin for imported goods.

Accomplishment

Benchmark accomplished

Policy Benchmark

A2. The GOE will ensure that private exporters of cotton yarn are allowed to export at freely negotiated prices.

Verification Indicator(s)

A2.1 The GOE ensures that neither Textile Consolidation Fund (TCF) nor any other organization restricts private sector yarn exports of any count on the basis of minimum export prices.

A2.2 Private sector operators confirm that A.2.1. is in fact the case.

Method

MVE interviewed the Chairman of the Textile Consolidation Fund, two Holding Company chairmen, directors of several public sector spinning companies, and numerous managers of private sector spinning companies. Under the leadership of Dr. Adel Mostafa, MVE conducted a formal survey of 29 private sector spinning companies. APRP/RDI also provided useful interview notes and observations.

Analysis and findings

The Commercial Committee of the Textile Consolidation Fund (TCF) continued to set minimum export prices for different types of cotton and blended yarn in 1998/99. The yarn price table for the period December 7, 1998 through June 30, 1999 appears in the annex. Nevertheless, *the current situation, as of June 1999, is that minimum export prices are neither enforced nor enforceable.*

The MVE Unit has described in detail the process by which TCF sets and tries to enforce minimum yarn export prices in earlier Verification reports (see pp. 39-41, Benchmark I.A.4 write-up in the Tranche I Verification Report, July 1997 and pp. 12-15, I.A.4 write-up in the second Tranche I Verification Report, March 1998). This process remains unchanged, although it has been undercut somewhat by price chiseling in a hyper-competitive world market. Public spinning companies that export are required to respect TCF's minimum export prices. These prices are arrived at by textile industry consensus through the Commercial Committee of TCF, under the leadership of a holding company chairman. This committee is still dominated by public or former public sector representatives—chairmen of large, export-oriented spinning companies that remain public or have been privatized relatively recently. The members of this Committee appear in the annex. TCF approves yarn exports at prices equal to or above the *minimum* export prices, particularly to high-income markets with quotas.

As of February 1999, however, the system of minimum export prices was breaking down under the pressures of fierce international competition in European and other markets, largely from

Asian countries that have devalued their currencies, and because of the continued poor financial situation of many public sector spinning companies. Before the Asian financial crisis began in late summer 1997, Asian spinners had already established a competitive cost advantage in world markets vis-a-vis Egypt, a less efficient and higher cost producer. The currency devaluations of the East Asian countries strengthened this cost advantage, while Egypt has maintained an informal peg to the U.S. dollar, the currency in which most of its foreign exchange reserves are denominated.¹ Egyptian yarn exports dwindled to very low levels in 1998-99, particularly to Western Europe, where quotas have gone largely unfilled.

By May 1999, it was reported that the system had collapsed and that both public and private spinners (including the privatized and joint investment ones) were no longer respecting the minimum export prices. Spinning companies were maintaining the pretense that they exported at prices no lower than the TCF minimum prices, but there is admission of chiseling. Export paperwork continues to appear as if spinning companies comply with the minimum prices. The collapse of the minimum yarn prices is privately conceded by industry insiders, though not admitted by TCF officials or most public or private spinners, except in personal interviews.

Thus *de facto* pricing freedom represents both an opportunity and a risk. There is an opportunity to increase yarn export volume (within the frame work of quotas established for the EU and US markets and unimpeded to other countries), as well as an increasing risk of triggering anti-dumping penalties in those markets.

The Risk of Triggering Anti-Dumping Penalties in Foreign Markets. *The breakdown of the system of minimum export prices poses very definite risks, however, in that Egyptian spinners risk facing anti-dumping penalties, particularly by EU countries.* This threat was very clearly illustrated when TCF and the Commercial Committee attempted to reduce yarn prices in April 1999 by 7 percent to the EU and 3 percent to the U.S. The French Association of Textile Manufacturers responded in a letter to TCF that the discount represented unfair competition and that the Association would take the matter to the EU Commission so that the EU could lodge a formal dumping charge against Egypt. This threat led TCF to reverse itself on the price discount to EU markets. Note in this particular case that the EU would have charged the entire Egyptian spinning industry with dumping—not a specific company or set of companies. As of mid-June 1999, however, it appeared that the originally proposed discounts in minimum yarn prices to the EU markets will be implemented, following consultations between Egyptian

¹ Note that the Egyptian pound has come under successive waves of pressure to devalue from late 1998 onward. Egypt has run a current account deficit during the past two years, and imports are at record levels, while export revenues have languished. The Central Bank of Egypt (CBE) has reportedly spent nearly two billion dollars trying to defend the pound and now apparently limits dollar access by requiring importers to have 100% of the foreign currency in hand before allowing letters of credit to be issued.

and EU officials in Brussel. An Egyptian delegation to Brussels convinced EU officials to permit the yarn price cuts, arguing that euro depreciation had made Egyptian exports to Europe more expensive than they had been earlier in 1999.

In general, anti-dumping duties are levied against individual companies accused of predatory pricing practices. The importing country has to establish, using a transparent and agreed upon method, that a particular company is dumping. As stated in the *WTO Agreement on Implementation of Article VI of the GATT, 1994*, the relevant authorities in the importing country “shall name the supplier or suppliers of the product concerned.” This *WTO Agreement* goes on to state:

“If, however, several suppliers from the same country are involved, and it is impracticable to name all these suppliers, the authorities may name the supplying country concerned. If several suppliers from more than one country are involved, the authorities may name all the suppliers involved, or, if this is impracticable, all the supplying countries involved.”

Hence, there is some ambiguity in the GATT/WTO language, suggesting that an importing country can, in certain circumstances, cite an entire industry of an exporting country in a dumping case, rather than name a particular company or companies. Filing dumping charges against the entire Egyptian spinning industry, which is dominated by large public sector companies, recently privatized companies that behave in many ways like public sector companies, and joint investment companies that are largely publicly owned, appears to be legitimate under WTO rules. EU trade negotiators made this very point at a meeting with representatives of the Egyptian textile industry in Brussels in early June. Although the GOE and Egyptian textile industry do not accept this interpretation, it is the operative one in the EU countries at the moment.

The French textile industry’s threat to TCF of April 1999 needs to be taken seriously and could well be followed by complaints of other EU or US industry groups. Although the GATT, Uruguay Round led to an agreement to lower protection on most product groups, trade in textile products remains a sensitive area and protectionist interests are politically powerful in the major EU markets and in the U.S. Long periods of gradual tariff reductions and slow removal of other textile trade barriers will reduce industry dislocations in high-income country markets, but spinning industries in those countries will definitely be hurt and will seek to protect themselves within the framework of the GATT/WTO. The TCF and its Commercial Committee rightfully anticipate troubled waters ahead—i.e., the incidence of levying of anti-dumping penalties on Egyptian yarn (and fabric) exports may well rise.

APRP could provide TCF and the Egyptian textile industry a valuable service by studying WTO rules regarding dumping, what triggers anti-dumping penalties in the EU and U.S., and in what cases a country’s entire industry can be accused of having competed unfairly. An international trade and WTO/GATT expert could provide technical guidance to TCF and the spinning industry on how to analyze product pricing and dumping issues, how to defend the

Egyptian industry against changes of dumping, and how to avoid blanket accusations of dumping and imposition of penalties against all textile exports of the Egyptian textile industry.

Are TCF Minimum Export Prices Binding? Egyptian public sector spinners are under administrative pressure to adhere to TCF minimum export prices, while their generally poor financial picture, large and increasing inventories of yarn, mounting debts, and high operating costs (including payment of redundant labor) compel them to cut export prices. Note that most public sector spinners are operating well below capacity, which raises production costs per mt of yarn. In contrast to the public spinners, the emerging private sector spinning industry was recently created through new investments in properly scaled production units. These firms have no legacy of heavy debts, redundant labor, large inventories of textile products, or mismanagement. Furthermore, most of the new spinners are located in tax-free industrial zones or ports, which provides an additional cost advantage. *The new private spinners can spin cotton yarn and export it profitably for lower prices than the public sector companies and the privatized or joint investment companies that are managed by former public sector managers.*

MVE learned through interviews with textile firms and investigations with the ETMF that there has been significant recent investment by private spinners. To learn more about these firms, MVE conducted a formal survey of nearly 30 private sector spinners in May 1999 that revealed a broad spectrum of firms from recently privatized spinning companies (Alexandria and Uniarab Spinning and Weaving) and joint investment companies (Miratex, Amriya) and new private companies that spin a wide range of yarn counts to small niche companies that spin waste into low count yarn. The private spinning companies, other than the largest, public sector-like ones, do not generally observe the minimum export prices. If charged with dumping by importing countries, these companies could conceivably demonstrate that their production costs are low, their investment costs are moderate (where plants are properly scaled to output), and their export prices allow for profits, despite being lower than those of the state and state-like large companies.

Hence, the private sector spinning companies confirm that TCF minimum yarn prices do not constrain or restrict their yarn exports (verification indicator A2.2). MVE considers that the system of minimum yarn export prices has been tacitly abandoned and no longer restricts private sector exporters.

GOE Ensures that No Organization Restricts Yarn Exports. Whether or not “the GOE ensures that neither TCF nor any other organization restricts private sector yarn exports of any count on the basis of minimum export prices” (verification indicator A2.1) is more difficult to determine. First, TCF is an autonomous agency that receives no budgetary support from the GOE and only loosely falls under the tutelage of the Ministry of Industry. Second, the Commercial Committee of TCF that sets the minimum export prices is not a governmental body or agency, although its most influential members and indeed the vast majority of its members run public sector spinning companies or holding companies, or work for government

agencies². Third, beyond the nominal oversight of TCF provided by the Ministry of Industry, it is not clear which other ministries influence yarn export prices. Since the public sector HCs and ACs fall within the Ministry of Public Enterprise, MPE should exercise influence over TCF. MTS may also influence yarn export prices, since trade is its domain and since export promotion is an important part of its mandate under Minister Goweli. The responsible agency should have been established before the benchmark was written and approved.³ Nevertheless, the fact that no GOE agency has stepped in to enforce minimum yarn export prices strictly (and to penalize non-compliance) is positive for Egyptian spinners.

Accomplishment:

Benchmark accomplished. The system of minimum yarn export prices has broken down; some public and most private spinning companies have been exporting yarn to foreign markets at prices below the TCF-enforced ones. While the GOE has taken no particular action to ensure more competitive pricing, it has not stepped in to prevent the practice of exporting at prices below TCF levels. Clearly, the GOE has the power to order enforcement or non-enforcement of TCF minimum prices. The fact that the GOE has done nothing to restrict exports at prices below TCF levels, despite Egyptian spinners' reduction of export prices in response to increased international competition leading to lower prices in world markets, shows that it at least tacitly accepts yarn exports at prices below TCF minimum levels.

² The TCF commercial committee has 22 members, of which only two are private textile companies: Alexandria and Unirab, Spinning and Weaving companies.

³ This benchmark is incomplete, because it fails to identify which GOE agency is supposed to prevent TCF from setting minimum export prices that might restrict private sector spinning industry exports of yarn.

Policy Benchmark

A3. The GOE will take further steps toward a competitive free market for cotton to ensure that private sector traders are able to buy and sell seed cotton.

Verification Indicator(s)

A3.1 The GOE will not announce a guaranteed price for seed cotton that restricts private sector participation in cotton marketing beginning with the 1998/99 marketing season.

A3.2 The GOE will provide evidence that private sector traders are able to buy and sell cotton.

Method

MVE conducted a survey under the supervision of Dr. Adel Mostafa with the assistance of Dr. Said Saleh, Dr. Ezz Abdel Kader, Dr. Boaraie Ahmed, Dr. Samir Arram and Mr. Mohamed Attwa of 74 seed cotton traders in five cotton trading governorates in November-December 1998. Under the supervision of Dr. Morsy Fawzy, MVE consultants Mohamed Hassan Heikal, Mahmoud Alaa Abdel Aziz, Mostafa Sayed El Gohary also worked closely with GTZ/CSPP and MALR/CAAE in conducting a survey of 520 cotton producers' marketing of seed cotton in 1998/99. Dr. John Holtzman helped to design the questionnaires for both trader and farmer surveys. With assistance from Sherif Fayyad, he also analyzed the trader survey data. These formal surveys were complemented by numerous interviews with GOE and ALCOTEXA officials, private and public sector traders and ginners, and other key informants at different points in time during the 1998/99 cotton marketing season. MVE worked closely with GTZ/CSPP when GTZ consultant Ron Krenz was doing the study *Liberalization of Cotton Marketing in Egypt: The Situation in the 1998/99 Season*. The MVE/CSPP report *The Quality and Grading of Egyptian Cotton* and the MVE unit's *Cotton Subsector Baseline* also contributed to MVE's ongoing monitoring and evaluation of cotton marketing reform in Egypt.

Analysis and findings

The GOE Refrains from Announcing Seed Cotton Prices in 1998. The Government did not announce floor prices for seed cotton before the 1998/99 season, which represented a significant step forward. The lack of an announcement at or before planting, however, also left farmers uncertain about what the new policy was. The Government also discontinued the deficiency payment program, which had limited private sector participation in 1997/98. This was because producer floor prices had been set above world market prices (adjusting the producer seed cotton price for marketing and ginning costs and out-turn to arrive at lint equivalent prices). The three private companies that participated in seed cotton buying in 1997/98 incurred losses and subsequent arrears on bank loans equal to the magnitude of the deficiency payments (difference between the seed cotton purchase price and the export price

for lint cotton) plus accrued interest. The arrears and interest were forgiven in the late summer of 1998, allowing these companies to obtain loans for the 1998/99 season.⁴

Joint Ministerial Decree No. 1048 of 1998 Sets the Framework for the 1998/99 Cotton Marketing Season. On August 10, 1998, Ministers Wally, Goweli and Ebeid issued a joint Ministerial Decree (No. 1048 of 1998) concerning the *optional system of domestic marketing of cotton in 1998/99*. The full text of this decree appears in the annex. This decree established seed cotton sales rings, operated by PBDAC, to serve as points where farmers could sell to buyers, either public or private trading (or ginning) companies, at prices based on ALCOTEXA export prices. The decree noted that CATGO and the Cotton and International Trade Holding Company (CIT-HC) would prepare detailed price tables based on the ALCOTEXA export prices and announce the seed cotton prices at the sales rings. The decree also stated that producers were allowed to sell their seed cotton freely to the highest bidder (and, by implication, outside the sales rings).

⁴ The Prime Minister issued the three companies and their banks a letter that guarantees GOE repayment of their debt.

GOE Links Seed Cotton Prices to ALCOTEXA Export Prices. Prices offered at the sales rings for seed cotton, where the Government remained the buyer of last resort, were directly linked to the export prices announced at the beginning of the marketing season, in late August 1998, by ALCOTEXA.⁵ ALCOTEXA⁶ did not change any of its lint cotton export prices until the end of December 1998, at which point over 90 percent of Egypt's export commitments had been made. Hence, prices offered at the PBDAC-run sales rings remained fixed for virtually the entire seed cotton buying season following the 1998 cotton harvest.

⁵ The CIT-HC and CATGO collaborated to produce detailed tables of seed cotton prices by grade and ginning out-turn ratio that were applied by buyers at PBDAC sales rings. These prices were tied to ALCOTEXA export prices. Although buyers of seed cotton outside sales rings did not have to apply the price tables, they did serve as a guideline for many buyers.

⁶ ALCOTEXA is not a GOE entity; it is an exporters' union with both private and public sector members. In fact, private sector members (14) outnumber public sector members (9). ALCOTEXA's views do not necessarily reflect those of the GOE. Nevertheless, its Management Committee is led by chairmen of public sector cotton trading companies, as well as comprised of other public sector voting members and a very influential, though non-voting, MTS official.

Most observers note that ALCOTEXA did a better job in setting 1998/99 opening prices for Egyptian cotton lint exports that reflected world market conditions, with the exception of ELS varieties,⁷ than it did at the beginning of the previous two seasons. ALCOTEXA did not change the opening prices for the long staple varieties Gizas 75, 85, 86 and 89 until December 13, 1998, at which point it raised them by two cents per lb. As of December 27, 1998, ALCOTEXA lowered the minimum exportable grade for the ELS varieties Gizas 70, 76, 77, and 88 (and LS variety Giza 87) from Good + _ to Good + ¼ and also lowered the price per grade. This effectively lowered ELS export prices 4-6 cents/lb. for these varieties. As of May 16, 1999, prices for lower grades of Giza 70 (below the grade of Good/Fully Good) were lowered a further 1.5-5 cents/lb.,⁸ which is anticipated to help move some of the large stocks of this important ELS variety.

CATGO and the CIT-HC derived seed cotton purchase prices, which were applied by both public trading and ginning companies and private buyers at the PBDAC sales rings, from the opening ALCOTEXA export prices during the 1998/99 marketing season. These tables were developed for each variety, and the price differential between grades was fixed at LE 6/grade for each variety, regardless of the varieties' relative value in the world market. The prices in the CATGO/CIT-HC tables reflected a fixed marketing margin of LE 55 per seed cotton kantar and varied by ginning out-turn ratio, which varied by cotton variety, by week and by lot (with CATGO doing the grading).

In November 1998, MVE conducted a formal survey of 74 seed cotton traders, of whom 31 were registered and 43 non-registered. Sixty-seven of these sample traders bought seed cotton in 1998/99, and 66 responded to most questions. This was complemented by structured informal interviews with the major public and private trading and ginning companies. Fifty-three of 66 traders (80%), surveyed by MVE, referred to the "price tables" prepared by CATGO and CIT-HC. In referring to these price tables, only 9 traders followed them verbatim, while among traders who used the tables as a guideline, 48 (73%) pay less and 19 respondents (29%) pay more than the prices listed in the table.⁹ When asked whether they negotiate prices with seed cotton sellers, the vast majority of sample traders (63 or 66)

⁷ Giza 70, the flagship of Egyptian ELS exports during the 1990s, has sold poorly in world markets for much of 1998/99, because its opening price was set at a high level at the beginning of the season and not lowered until January 1999, at which point many fine-count foreign spinners and importers had already made their commitments to buy much of their cotton lint elsewhere. There were very high Giza 70 carryover stocks as of 1 September 1998 (760,000 metric kantars according to ALCOTEXA's April 1999 *Egyptian Cotton Gazette* and 908,651 kantars according to Alcotan as of February 1999), which will likely remain high with the large 1998 crop and mediocre export sales (12,118 mt as of 26 June 1999) of the current marketing season. ALCOTEXA projects carryover of 1.2 million kantars of Giza 70 as of 31 August 1999.

⁸ The price for the minimum exportable grade of Giza 70, Good + ¼, was reduced 5 cents/lb. Since nearly all exports are made at the minimum exportable grade, this is the most relevant price reduction by ALCOTEXA.

⁹ The disaggregated figures do not add up to 53 traders, because some of the traders who use the tables as a guideline both pay more and less than the amount listed for a particular cotton variety and grade in the prices table, depending on the market context.

reported that they did. Furthermore, 61 of these 66 respondents reported that some sellers refused to accept their offer prices and that they were unable to buy any seed cotton from those sellers. The seeming paradox of most sample traders reporting negotiation over prices while nearly as many say they use the prices tables at least as a guideline for making offers to sellers is evidence that the Egyptian seed cotton market is in a transitional period during which elements of the old command economy and the new liberalized economy are juxtaposed.

Although most sample traders referred to the GOE price tables, 53 of 66 traders who bought seed cotton in 1998/99 did not follow the price differentials between grades closely.¹⁰ In other words, these private traders felt free to pay a larger premium for a higher grade, relative to the base grade of Good + ¼, as well as a deeper discount for a lower grade of seed cotton. Furthermore, 40 of 66 traders (64%) concentrated on buying the better grades, while 26 respondents bought all grades of seed cotton (there were four non-respondents). These developments are further evidence of an emerging free market system for seed cotton.

The public sector cotton trading and ginning companies, which bought 76.9 percent of their seed cotton at sales rings run by PBDAC, were instructed by the cotton holding companies to apply the price tables in purchasing all of their seed cotton, which amounted to 71.8 percent of the crop. As in 1997/98, each of the 892 sales rings run by PBDAC had only one buyer. The eight private companies that bought seed cotton at PBDAC-run sales rings, which totaled 11.3 percent of the crop, also applied the price tables. Note that private companies made 40.0 percent of their purchases (451,612 of 1,127,843 seed cotton kentars) at PBDAC sales rings.

Increased Private Sector Participation in Seed Cotton Buying. Despite continued *de facto* fixed pricing at the PBDAC-run sales rings, private trader participation was significantly higher this year than last year, as the MVE verification survey showed. In addition to the 74 sample cotton buyers, MVE identified another 28 traders operating in three of the five sample governorates — Beheira (3), Menoufia (12), and Beni-Suef (13). In interviews with large private trader/exporters, the company managers guesstimated that there were hundreds of seed cotton buyers based in cotton-producing governorates.

CIT HC data show that ten private trading companies delivered 28.1 percent of the seed cotton crop in 1998/99 to the gins, a vast improvement over 1997/98, when only three companies delivered a modest 6.5 percent of the crop.¹¹ Table A3-1 shows seed cotton deliveries to gins by both public and private companies, by source of supply. The ten principal private traders obtained 51.0 percent of their seed cotton at PBDAC run sales rings, 16.3

¹⁰ Note that only 700 seed cotton kentars of 193,732 kentars that sample traders reported buying were purchased at PBDAC-run sales rings in 1998/99. This discussion concerns trader purchases outside PBDAC rings in villages and at trader-run rings (see Table A3-2).

¹¹ Note that one private trading company, EMIPAC, only bought seed cotton to obtain certified seed and had the exclusive right to the lint cotton from this (certified) seed cotton.

percent from cooperatives, 16.9 percent through traders and brokers, and 4.4 percent at the gins.

MVE¹² also discovered that the number of officially registered cotton traders had declined over the past two years through cancellations by traders who most likely had been discouraged by limited private sector participation in 1996/97 and 1997/98 and who no longer planned on buying seed cotton. As of January 1999, 138 of the 197 registered traders who had registered from 1994 through 1998 were still registered, while 59 traders had canceled their registrations.¹³ Note that 29 registered traders were public companies and 15 were cooperatives. The 94 remaining private traders or trading companies (60 companies, 34 individuals) comprised 68.1 percent of the total 138 registered traders in January 1999. This represented a 21 percent decline from the 119 registered private traders in April 1997, when private traders comprised 73.5 percent of the total of 162 registered traders.

¹² MVE obtained the data about trader registrations from the CIT-HC. R. Krenz obtained these data from MVE and reported them in *Liberalization of Cotton Marketing in Egypt: The Situation in the 1998/99 Season* (May, 1999).

¹³ Registered traders are required to pay a refundable deposit of LE 3,000. The annual, non-refundable fee is LE 500 per registered trading company.

Table A3-1: Seed Cotton Deliveries to the Gins by Company, 1998/99

Company	PBDAC Sales Rings	Traders or Brokers	Gins	Coops	Total Deliveries to Gins	Percentage of Private/Public	Percentage of Total
Public Trading Companies	2 211 227	0	0	241 730	2 552 957	88 60%	62 70%
Mier Export	348 708			50 178	398 886	13 80%	0 00%
Alexandria Commercial	374 767			52 312	427 079	14 80%	10 60%
Al Kahira	304 588			66 874	371 462	16 00%	11 50%
Alcaton	354 106			52 787	406 893	14 10%	10 10%
Eastern	353 870			45 204	399 074	13 80%	10 00%
Port Said	385 500			73 085	458 585	15 00%	11 50%
Public Ginning Companies	320 587	0	0	0	320 587	11 40%	8 20%
Delta Ginning	105 802				105 802	3 70%	2 60%
Mier Ginning	107 535				107 535	3 70%	2 70%
El Wadi Ginning	116 250				116 250	4 00%	2 00%
Total of Public Companies	2 540 824	0	0	341 730	2 882 554	100 00%	71 90%
Percentage of Public Sector Deliveries	88 1%	0 00%	0 00%	11 90%	100 00%		
Private Trading & Ginning Companies	575 047	100 085	50 000	212 711	1 127 843	100 00%	28 10%
Percentage of Private Sector Deliveries	51 00%	16 90%	4 40%	27 70%	100 00%		
Modern Nile & Arabia Ginning	248 500	20 054	40 350	282 711	609 705	54 10%	15 20%
Nile Ginning	108 221	3 161			111 382	9 90%	2 80%
Nasasa	24 607	1 636			26 243	3 20%	0 00%
ATTCOT (Dahab)	24 563	16 017		30 000	70 580	6 30%	1 80%
El Mahrouk	18 573	7 030			25 603	2 30%	0 60%
Tanta	10 377	81 021			91 398	8 10%	2 30%
Attar (Banha)	6 681	2 073			8 754	0 00%	0 20%
Nofartiti	0	17 500	650		18 150	1 60%	0 50%
El Watany	0	31 603			31 603	2 80%	0 80%
El Roctania (EMIPAC)	123 435	0	0	0	123 435	10 00%	3 10%
GRAND TOTAL	3 115 871	100 085	50 000	654 441	4 010 397		
Percentage of Total	77 70%	4 70%	1 20%	16 30%	100 00%		100 00%

Source: CIT-EC and PBDAC, as reported in Krenz (1999). These data are not the final data for the 1998/99 ginning season, as final figures are available in July.

Note : EMIPAC had an exclusive contract to buy all of the lint grown by growers of certified cotton planting seed. EMIPAC delivered 123,435 seed cotton kentars to the gins.

In the November 1998 survey of seed cotton buyers, MVE interviewed 31 registered and 43 non-registered traders in five governorates (see annex for a more detailed breakdown). Traders' seed cotton purchases by location are detailed for the past five years in Table A3-2. For 1998/99, 85.8 percent of the sample traders' purchases were made in the village, while only 0.4 percent of the purchases were at PBDAC sales rings, 3.1 percent at collection points in other villages, and 10.8 percent at traders' own sales rings. The proportions of total seed cotton purchases at the village level by sample traders were actually higher in 1996/97 (97.1%) and 1997/98 (95.1%).

As shown in Table A3-3, sample traders bought 44.8 percent of their seed cotton directly from farmers in 1998/99, a marked decline from the 100 percent procured from farmers in 1996/97 and 1997/98. In contrast, 55.0 percent of all the seed cotton bought by sample traders was purchased from other traders. Purchases from traders comprised a large proportion of total purchases (85.2%) in Dakahlia¹⁴ and a significant proportion in Fayoum (21.9%). As in the previous two years, all or nearly all of the sample traders in Sharkia, Menoufia, Beni-Suef and Beheira purchased their seed cotton from farmers in 1998/99.

Sample traders sold their seed cotton to several different buyer types, as shown in table A3-4.

Twenty of 67 traders (27.0%) sold only to private trading companies, while fifteen (20.3%) sold only to public traders (13) or private ginner (2). Hence, nearly half (47.3%) of the sample traders sold to only one buyer type. Another 28 traders sold to both public and private trading companies, while the remaining respondents sold to three or more buyer types. An important finding from these breakdowns is that 57 of the sample traders sold at least some of their seed cotton to a private trading company or ginner in 1998/99.

Breaking out sample traders' sales of seed cotton in volume terms reveals, as shown in Table A3-4, that 47 of 67 reporting traders sold 43.9 percent of the total volume of seed cotton (or 85,122 of 193,732 seed kentars) to private trading companies and two traders sold 0.4 percent of the total to private ginner. The rest of the seed cotton (55.4 percent) was sold to public companies by 18 sample traders.¹⁵

¹⁴ Note that one trader in Dakahlia alone purchased 100,000 seed cotton kentars, or 93.9 percent of the total amount of seed cotton bought by sample traders from other traders. If this case is omitted, sample traders bought 86,737 seed kentars from farmers and 6,495 seed kentars from traders, which yields relative proportions of 92.5% and 6.9%.

¹⁵ The same Dakahlia-based trader stated he sold 100,000 of the total 107,250 seed kentars to large trading

companies, which were both public and private. This trader could not provide a detailed breakdown of sales by buyer type. If we assume that 60% of his seed cotton was sold to public trading companies and the other 40% to private trading companies, the share of all sample traders' sales change markedly to public (34.7 percent) and private (74.9 percent) companies.

Table A3-2: Sample Traders' Seed Cotton Purchases, by Type of Buying Locations
(Seed Cotton Kentars)

Governorates	PBDAC-Run Sales Ring	%	Own Sales Ring	%	Village	%	Other Villages	%	Total	%
1994/95										
Reheira	0	0.0	0	0.0	610.600	100.0	-	0.0	610.600	100.0
Dakahlia	0	0.0	2.570	2.4	106.592	97.6	-	0.0	109.162	100.0
Sharkia	250.000	96.1	1.800	0.7	7.404	2.8	1.000	0.4	260.204	100.0
Menoufeva	0	0.0	0	0.0	14.650	100.0	-	0.0	14.650	100.0
Beni Suef	0	0.0	0	0.0	11.550	73.3	4.200	26.7	15.750	100.0
Fayoum	72.000	62.9	4.000	3.5	35.400	30.9	3.000	2.6	114.400	100.0
Total	322.000	28.6	8.370	0.7	786.196	69.9	8.200	0.7	1,124.766	100.0
1995/96										
Reheira	0	0.0	0	0.0	63.340	100.0	-	0.0	63.340	100.0
Dakahlia	0	0.0	2.404	3.4	69.170	96.6	-	0.0	71.574	100.0
Sharkia	71.133	89.7	2.000	2.5	6.135	7.7	-	0.0	79.268	100.0
Menoufeva	0	0.0	0	0.0	4.980	100.0	-	0.0	4.980	100.0
Beni Suef	0	0.0	0	0.0	17.300	90.6	1.800	9.4	19.100	100.0
Fayoum	200.000	88.8	2.000	0.9	23.200	10.3	-	0.0	225.200	100.0
Total	271.133	58.5	6.404	1.4	184.125	39.7	1.800	0.4	463.462	100.0
1996/97										
Reheira	0	0.0	0	0.0	200	100.0	-	0.0	200	100.0
Dakahlia	0	0.0	0	0.0	54.850	100.0	-	0.0	54.850	100.0
Sharkia	0	0.0	0	0.0	200	100.0	-	0.0	200	100.0
Menoufeva	0	0.0	0	0.0	1.380	100.0	-	0.0	1.380	100.0
Beni Suef	0	0.0	0	0.0	11.450	85.1	2.000	14.9	13.450	100.0
Fayoum	-	-	-	-	-	-	-	-	-	-
Total	0	0.0	0	0.0	68.080	97.1	2.000	2.85	70.080	100.0
1997/98										
Reheira	0	0.0	0	0.0	450	100.0	-	0.0	450	100.0
Dakahlia	0	0.0	0	0.0	33.600	100.0	-	0.0	33.600	100.0
Sharkia	0	0.0	0	0.0	120	100.0	-	0.0	120	100.0
Menoufeva	200	10.9	0	0.0	1.630	89.1	-	0.0	1.830	100.0
Beni Suef	0	0.0	0	0.0	12.400	84.4	2.300	15.6	14.700	100.0
Fayoum	-	-	-	-	-	-	-	-	-	-
Total	200	0.4	0	0.0	48200	95.1	2.300	4.5	50.700	100.0
1998/99										
Reheira	500	17.1	0	0.0	2.430	82.9	-	0.0	2.930	100.0
Dakahlia	0	0.0	0	0.0	117.650	100.0	-	0.0	117.650	100.0
Sharkia	0	0.0	15.360	76.0	4.859	24.0	-	0.0	20.219	100.0
Menoufeva	200	2.3	0	0.0	8.400	97.7	-	0.0	8.600	100.0
Beni Suef	0	0.0	500	2.3	19.400	90.2	1.600	7.4	21.500	100.0
Fayoum	0	0.0	5.000	21.9	13.500	59.1	4.333	19.0	22.833	100.0
Total	700	0.4	20.860	10.8	166.239	85.8	5.933	3.1	193.732	100.0

Source: Calculated from the MVE cotton trader survey, 1998

Note : During the first two marketing seasons shown in this table, seed cotton was bought at cooperative collection centers, not PBDAC-run sales rings. PBDAC took over the seed cotton receiving and assembly function in 1996/97.

Table A3-3: Sample Traders' Seed Cotton Purchases, by Seller Type
(Seed Cotton Kentars)

Governorates	Farmers	%	Traders	%	Others	%	Total	%
1994/95								
Beheira	610,600	100.0	-	0.0	-	0.0	610,600	100.0
Dakahlia	109,162	100.0	-	0.0	-	0.0	109,162	100.0
Sharkia	260,204	100.0	-	0.0	-	0.0	260,204	100.0
Menoufeya	14,650	100.0	-	0.0	-	0.0	14,650	100.0
Beni Suef	15,750	100.0	-	0.0	-	0.0	15,750	100.0
Fayoum	98,300	85.9	14,600	12.8	1,500	1.3	114,400	100.0
Total	1,108,666	98.6	14,600	1.3	1,500	0.1	1,124,766	100.0
1995/96							-	
Beheira	63,340	100.0	-	0.0	-	0.0	63,340	100.0
Dakahlia	71,574	100.0	-	0.0	-	0.0	71,574	100.0
Sharkia	79,268	100.0	-	0.0	-	0.0	79,268	100.0
Menoufeya	4,980	100.0	-	0.0	-	0.0	4,980	100.0
Beni Suef	19,100	100.0	-	0.0	-	0.0	19,100	100.0
Fayoum	214,200	95.1	11,000	4.9	-	0.0	225,200	100.0
Total	452,462	97.6	11,000	2.4	-	0.0	463,462	100.0
1996/97							-	
Beheira	200	100.0	-	0.0	-	0.0	200	100.0
Dakahlia	54,850	100.0	-	0.0	-	0.0	54,850	100.0
Sharkia	200	100.0	-	0.0	-	0.0	200	100.0
Menoufeya	1,380	100.0	-	0.0	-	0.0	1,380	100.0
Beni Suef	13,450	100.0	-	0.0	-	0.0	13,450	100.0
Fayoum	-	-	-	-	-	-	-	-
Total	70080	100.0	-	0.0	-	0.0	70,080	100.0
1997/98							-	
Beheira	450	100.0	-	0.0	-	0.0	450	100.0
Dakahlia	33,600	100.0	-	0.0	-	0.0	33,600	100.0
Sharkia	120	100.0	-	0.0	-	0.0	120	100.0
Menoufeya	1,830	100.0	-	0.0	-	0.0	1,830	100.0
Beni Suef	14,700	100.0	-	0.0	-	0.0	14,700	100.0
Fayoum	-	-	-	-	-	-	-	-
Total	50,700	100.0	-	0.0	-	0.0	50,700	100.0
1998/99							-	
Beheira	2,430	82.9	-	0.0	500	17.1	2,930	100.0
Dakahlia	17,455	14.8	100,195	85.2	-	0.0	117,650	100.0
Sharkia	20,219	100.0	-	0.0	-	0.0	20,219	100.0
Menoufeya	8,600	100.0	-	0.0	-	0.0	8,600	100.0

Beni Suef	20,200	94.0	1,300	6.0	-	0.0	21,500	100.0
Fayoum	17,833	78.1	5,000	21.9	-	0.0	22,833	100.0
Total	86,737	44.8	106,495	55.0	500	0.3	193,732	100.0

Source: Calculated from the MVE cotton trader survey, 1998

Note: Others includes purchases of 1,500 kentars from a cooperative in Fayoum in 1994/95, and 500 kentars in Beheira in 1998/99.

Traders' Assessment of Competition in Seed Cotton Buying. When asked to assess competition in seed cotton marketing in the areas where they bought cotton in 1998/99, 37 sample traders reported that the market was competitive (very or moderately competitive), while 27 reported that the market was either not very competitive (13) or not at all competitive (14).¹⁶ Tabulating sample traders' opinions on competition by governorate reveals that the two respondents who found marketing to be very competitive in their areas are based in Dakahlia, while all 11 of the Beheira-based traders in the sample characterized the market in their area as lacking in competition (3 reported it was not very competitive and 8 reported it was not at all competitive). This sentiment about the market in Beheira may have had a lot to do with the fact that Giza 70, the predominant variety grown in that governorate, was a slow-moving variety, whose export price was set at a too high level by ALCOTEXA. The private sector, fearing low demand and unsold stocks, bought very little ELS cotton, particularly Giza 70. This led public sector buyers to buy Giza 70 at PBDAC sales rings in Beheira without any private sector competition. In other words, at the prices set by ALCOTEXA, demand was limited for Giza 70. In contrast to Beheira, all of the Beni-Suef and Fayoum traders in the sample who answered the question stated that the seed cotton market was moderately competitive in their governorates. Sharkia traders were evenly divided between moderately competitive and not very competitive, while two-thirds of the Menoufia traders reported that the seed cotton market was moderately competitive.

Based on their experience in seed cotton buying in 1998/99, fully 89 percent of the sample traders (66 of 74) plan to buy seed cotton in 1999/2000, which is another positive sign that the market for seed cotton is becoming more liberal.

Seed Cotton Prices Received by Farmers. In most cotton-producing governorates, traders paid prices at the farmgate that were closely related to the CATGO/CIT-HC price tables (less transport costs, profit, and a discount for cash payment). Yet in some governorates, traders offered prices higher than the prices of the price tables used at PBDAC sales rings for particular varieties both at the farm gate and at private sales rings. This reflected the greater demand for certain long staple varieties relative to supply—notably Giza 86 and Giza 85. In these cases, the price paid by traders was not tightly linked to the price tables. This is a positive development that shows that if seed cotton prices (based on ALCOTEXA's export prices) do not reflect underlying world market fundamentals, seed cotton prices paid to farmers will move toward levels prevailing on the international market and diverge from the CATGO/CIT-HC prices. There is now enough private sector participation in the market, as well as exporters' ability to discount export prices below ALCOTEXA prices, to ensure more competitive pricing of seed cotton. There remains a strong link with ALCOTEXA opening export prices, but this link is weakening over time.

Given the confluence of favorable developments, the GOE should feel more confident about removing this link. Pricing of a commodity at different stages of a competitive and open

¹⁶ Three traders did not respond to this question.

marketing system should reflect the real costs of performing different marketing and transformation functions, plus reasonable profit margins. Competition disciplines the market, not allowing any one participant to capture monopoly rents or excessive profits. Competition in the world cotton market sets the overall level of prices at all stages of the marketing system back to the producers.

Examining seed cotton prices paid by sample traders *by buying location* shows that traders paid higher prices at the farmgate for Giza 86 than at sales rings, as Giza 86 was a sought-after export variety in 1998/99, for which buyers would pay a premium. The opposite is true for Giza 85, a very good long staple variety used largely for domestic spinning.¹⁷ Traders paid farmers less for Giza 85 at the farmgate than at PBDAC rings, with the discount larger at lower grade levels (see Table A3-5). Traders also paid less for Giza 83 at the farmgate than at PBDAC sales rings (though there are fewer observations from which to draw a strong conclusion).

For the first time since the 1994/95 and 1995/96 seasons, cotton farmers had a choice as to where they delivered their seed cotton (public vs. private ring) or to whom and where they sold their cotton, with the option of being able to sell to a private trader outside any ring. In a survey of 520 cotton growers in five governorates, designed by CSPP and MVE and implemented by MALR/CAAE, 80 farmers (15.4 percent) sold some or all of their seed cotton to private traders. Farmers who sold their cotton this way reported that they had essentially no marketing and transactions costs in selling to private traders and that they received full cash payment on the spot. Although payment delays have been reduced at PBDAC-run sales rings, farmers still report waiting a few days for the results of the ginning out-turn tests and their money. Nine of 80 farmers also observed that private traders paid better prices than buyers at PBDAC sales rings.¹⁸

Private buyers were able to offer higher or lower prices to farmers outside the PBDAC-run sales rings and in the five privately run sales rings than could buyers at PBDAC sales rings. One trading company reported paying a significant premium for higher grade Giza 80. Surprisingly, the private sector bought 51.0 percent of the total Giza 80 supply in 1998/99. This is surprising in that one would expect, *a priori*, that private traders would focus more on export varieties, while Giza 80 is nearly all supplied to domestic spinners.¹⁹ Some traders also

¹⁷ As of 26 June 1999, export commitments for Giza 85 had reached 2,455 mt, while those for Giza 86 were 58,616 mt. Export commitments had attained 7,437 mt for Giza 89, 2,025 mt for Giza 80, 550 mt for Giza 83, and 12,118 mt for Giza 70.

¹⁸ Krenz (1999) reports that average prices received by farmers from private traders were lower than prices paid at PBDAC sales rings for all varieties except Giza 85, where traders paid an average premium of LE 7.5 (or 2.2% more). These price data are not disaggregated by grade, however, so they should be treated with caution.

¹⁹ The MVE survey of private spinners will provide data on their lint cotton procurement patterns. Some private spinners have bought Giza 80 in 1998/99, and it will be interesting to see if they paid a premium for any of it supplied by private traders.

reported paying a premium for Giza 86 and Giza 85, where private traders bought 30.8 and 44.7 percent of the crops respectively. In sharp contrast, private traders delivered only 10.0 percent of the 1998 Giza 70 crop to the gins, as this ELS variety was plagued by a too high opening export price and burdensome stocks as of the end of the 1997/98 season. Private traders generally avoided ELS seed cotton, delivering only 10.4 percent to the gins, while they procured a higher proportion of LS cotton, 33.9 percent.

Remaining Constraints on Private Trader Participation. While private sector traders were able to buy and sell seed cotton, several larger private trading companies claim that they would have bought more seed cotton had there not been any CIT-HC and CATGO intervention in pricing. They note that the level of ALCOTEXA lint cotton export prices was set 5-10 percent too high for ELS varieties in 1998/99, and that producer seed cotton prices were linked to the export prices.²⁰ In a completely open market, private traders could offer less for seed cotton assembled in villages or at their own rings. Although there was considerable weakness in demand for ELS and some types of LS cotton during 1998, ALCOTEXA prices were set on the high side, relative to prices of competing international growths, to help maintain reasonable returns to cotton growers, whose incomes declined due to poor cotton yields, higher input costs (including land rent), and lower producer prices than in 1996/97 and 1997/98. A few of the large private traders who did not buy at PBDAC sales rings, but who bought a significant quantity at their own rings or from producers and small traders in villages, stated that they would have had to accept all the seed cotton delivered to the PBDAC rings, including low-grade, non-exportable cotton.

Despite the increased proportion of farmer sales to private traders outside sales rings in 1998/99, most farmers are still more comfortable selling their seed cotton at PBDAC sales rings (36 percent of the sample farmers)²¹ or do not know of any alternatives (34 percent). Others feel compelled to sell at PBDAC rings to repay their production loans (21 percent) or said they did not know the prices private traders would offer at the time they were picking their seed cotton (8 percent).

The fact that nearly all of the farmers selling at PBDAC sales rings seemed wary of private traders, or did not know them, or are tied to PBDAC through loans indicates that it will take time for the seed cotton marketing system to change. Historically, farmers have regarded cotton as the Government's crop, and they have received all information, instructions and services concerning planting, pest control, seed cotton delivery and payment from the GOE. The MALR might consider preparing some marketing extension messages for farmers that inform farmers about their seed cotton marketing alternatives. Public

²⁰ Egypt does not fit the case of a small country, acting as a price taker, in the international market for fine cotton. The two main ELS and LS producers, Egypt and the U.S., dominate the world trade. There is a certain interdependency in their pricing decisions. Where ALCOTEXA sets minimum export prices influences how U.S. pima is priced. Movements in current and future pima prices can affect ALCOTEXA decisions regarding price adjustments.

²¹ This 36 percent of the sample farmers responded, more precisely, that they *trusted the PBDAC sales rings*. Note that 77.7 percent of the seed cotton was delivered to the PBDAC rings, of which 28.1 percent was purchased by private companies.

announcements can also inform farmers of the rules of the game regarding seed cotton buying for each upcoming marketing season.²² By improving the transparency of the cotton marketing policy and regulatory environment, the GOE can hasten the liberalization process.

The fixing of prices at PBDAC sales rings appears to be an artifact of the era of public sector control over seed cotton marketing. As long as there are public sector cotton trading companies, the CIT-HC, CATGO and ALCOTEXA maintain fixed prices and margins to be able to account for these companies' operating costs and returns. Privatization of the public sector cotton trading companies is a critical step toward accelerating and finalizing the liberalization of cotton marketing in Egypt.

Accomplishment:

Benchmark accomplished. Significant progress was made in the 1998/99 cotton marketing season in returning the subsector to a liberalization path. More private trading companies participated in buying seed cotton in 1998/99 than in the two previous seasons, and the eleven major private traders delivered 28.2 percent of the crop to the gins, well above the 6.5 percent of 1997/98. In addition, the GOE did not announce a producer support price before or during the 1998/99 marketing season, although prices paid by public and private traders at PBDAC-run sales rings were fixed by variety and grade, and still linked to ALCOTEXA's opening export prices for lint cotton.

Ten large private trading companies bought seed cotton directly from traders or producers, and they paid market-determined prices that were loosely related to the fixed prices paid at PBDAC sales rings. Two private trading companies also bought seed cotton delivered to the gins. Prices paid to producers and traders outside the PBDAC rings were sometimes lower and sometimes higher than the fixed prices, depending on the distance from the gins, the demand for a particular variety, and the grade estimated by the buyers.

²² Note that the Deputy Prime Minister and Minister of Agriculture, Dr. Youssuf Wally, does make periodic announcements about intentions regarding seed cotton production, pest control and marketing.

Table A3-4: Sample Traders' Seed Cotton Sales, by Buyer Type

Governorates	Public Co.	%	Private Co.	%	Public Gin	%	Private Gin	%	Exports	%	Total	%
	Total Volume		Total Volume		Total Volume		Total Volume		Total Volume			
1994/95												
Beheira	30.600	5.0	580.000	95.0	-	0.0	-	0.0	-	0.0	610.600	100.0
Dakahlia	106842	97.9	320	0.3	2.000	1.8	-	0.0	-	0.0	109.162	100.0
Sharkia	258904	99.5	1.300	0.5	-	0.0	-	0.0	-	0.0	260.204	100.0
Menoufeva	12.350	84.3	1.700	11.6	600	4.1	-	0.0	-	0.0	14.650	100.0
Beni Suef	-	0.0	15.750	100.0	-	0.0	-	0.0	-	0.0	15.750	100.0
Favoum	38.900	34.0	3.500	3.1	72.000	62.9	-	0.0	-	0.0	114.400	100.0
Total	447.596	39.8	602.570	53.6	74.600	6.6	-	0.0	-	0.0	1.124.766	100.0
1995/96												
Beheira	52.000	82.1	11.340	17.9	-	0.0	-	0.0	-	0	63.340	100.0
Dakahlia	61.404	85.8	8.170	11.4	2.000	0.0	-	0.0	-	0.0	71.574	100.0
Sharkia	5.610	7.1	73.658	92.9	-	0.0	-	0.0	-	0.0	79.268	100.0
Menoufeva	4.080	81.9	500	10.0	400	0.1	-	0.0	-	0.0	4.980	100.0
Beni Suef	2.700	14.1	15.000	78.5	1.400	0.1	-	0.0	-	0.0	19.100	100.0
Favoum	23.200	10.3	2.000	0.9	200.000	0.9	-	0.0	-	0.0	225.200	100.0
Total	148.994	32.1	110.668	23.9	203.800	0.4	-	0.0	-	0.0	463.462	100.0
1996/97												
Beheira	200	100.0	-	-	-	0.0	-	0.0	-	0.0	200	100.0
Dakahlia	54.550	99.5	300	0.5	-	0.0	-	0.0	-	0.0	54.850	100.0
Sharkia	-	0.0	200	100.0	-	0.0	-	0.0	-	0.0	200	100.0
Menoufeva	1.180	85.5	200	14.5	-	0.0	-	0.0	-	0.0	1.380	100.0
Beni Suef	3.450	25.7	9.000	66.9	1.000	7.4	-	0.0	-	0.0	13.450	100.0
Favoum	-	0.0	-	-	-	0.0	-	0.0	-	0.0	-	0

Table A3-4: Sample Traders' Seed Cotton Sales, by Buyer Type

Governorates	Public Co.	%	Private Co.	%	Public Gin	%	Private Gin	%	Exports	%	Total	%
	Total Volume		Total Volume		Total Volume		Total Volume		Total Volume			
Total	59380	84.7	9.700	13.8	1.000	1.4	-	0.0	-	0.0	70.080	100.0
1997/98												
Beheira	240	53.3	210	46.7	-	0.0	-	0.0	-	0.0	450	100.0
Dakahlia	31.400	93.5	2.200	6.5	-	0.0	-	0.0	-	0.0	33.600	100.0
Sharkia	-	0.0	120	100.0	-	0.0	-	0.0	-	0.0	120	100.0
Menoufeva	1.630	89.1	200	10.9	-	0.0	-	0.0	-	0.0	1.830	100.0
Beni Suef	3.500	23.8	10.000	68.0	1.200	8.2	-	0.0	-	0.0	14.700	100.0
Favoum	-	0.0	-	-	-	0.0	-	0.0	-	0.0	-	0.0
Total	36.770	72.5	12.730	25.1	1.200	2.4	-	0.0	-	0.0	50.700	100.0
1998/99												
Beheira	2.080	71.0	350	11.9	-	0.0	-	0.0	500	17.1	2.930	100.0
Dakahlia	100.000	85.0	17.000	14.4	-	0.0	650	0.6	-	0.0	117.650	100.0
Sharkia	320	1.6	19.689	97.4	-	0.0	210	1.0	-	0.0	20.219	100.0
Menoufeva	2.850	33.1	5.750	66.9	-	0.0	-	0.0	-	0.0	8.600	100.0
Beni Suef	-	0.0	21.500	100.0	-	0.0	-	0.0	-	0.0	21.500	100.0
Favoum	2.000	8.8	20.833	91.2	-	0.0	-	0.0	-	0.0	22.833	100.0
Total	107.250	55.4	85.122	43.9	-	0.0	860	0.4	500	0.3	193.732	100.0

Source: Calculated from the MVE cotton trader survey, 1998.

Table A3-5: Seed Cotton Prices Paid by Sample Traders for Seed Cotton Compared to “Official” Prices and Prices Received by Farmers

Variety	Grade	CIT-HC	Mean Price Paid	No.	%	Mean Price Received	No.	% Difference	% Difference
		Price Table	by Sample Traders		Difference	by Sample Farmers		W/Sample Trader Price	W/Price Table
Giza 70	Fully Good	457.7	406.7	3	-11.1%				
	Good + 3/8	425.0	409.3	7	-3.7%				
	Total		408.5	10		367.2	7	-10.1%	
Giza 86	Fully Good	409.1	357.7	13	-12.6%				
	Good + 3/8	373.6	355.0	4	-5.0%				
	Good + 1/4	366.7	344.1	11	-6.2%				
	Good + 1/8	359.7	333.2	5	-7.4%	350.0	1		-2.7%
	Good	352.8	313.5	13	-11.2%				
	Good - 1/8	345.8	259.0	7	-25.1%				
	Good - 1/4	338.9	266.7	3	-21.3%				
	Total		325.2	56		293.9	19	-9.6%	
Giza 85	Fully Good	385.1	337.3	12	-12.4%				
	Good + 3/8	349.1	332.2	11	-4.8%				
	Good + 1/4	341.9	322.5	10	-5.7%	340.0	1	5.4%	-0.6%
	Good + 1/8	334.7	310.9	11	-7.1%				
	Good	327.5	279.0	5	-14.8%	343.6	3	23.2%	4.9%
	Total		321.2	49		341.1	34	6.2%	
Giza 89	Good + 3/8	353.0	331.4	7	-6.1%				
	Good - 1/8	324.7	317.5	2	-2.2%				
	Good - 3/8	310.5	310.0	4	-0.2%				
	Total		322.7	13		330.3	4	2.4%	

Table A3-5: Seed Cotton Prices Paid by Sample Traders for Seed Cotton Compared to “Official” Prices and Prices Received by Farmers

Variety	Grade	CIT-HC Price Table	Mean Price Paid by Sample Traders	No.	% Difference	Mean Price Received by Sample Farmers	No.	% Difference W/Sample Trader Price	% Difference W/Price Table
Giza 80	Good + 3/8	307.7	285.0	6	-7.4%				
	Good + 1/4	301.1	285.0	1	-5.3%				
	Good + 1/8	294.5	282.5	2	-4.1%	280.0	1	-0.9%	-4.9%
	Total		284.5	10		282.6	16	-0.7%	
Giza 83	Fully Good	342.7	291.7	3	-14.9%				
	Good + 3/8	308.6	287.4	7	-6.9%				
	Good + 1/4	301.8	287.8	4	-4.7%				
	Good + 1/8	294.9	281.6	5	-4.5%				
	Good - 1/8	281.3	285.0	1	1.3%				
	Good - 1/4	274.5	260.0	1	-5.3%				
	Total		285.3	21		--	0		

Source : 1) Prices from the CIT -HC price tables assume the average out-turn ratio for the entire season, as reported by MALR/CAAE.

2) Mean price paid by sample traders from MVE domestic cotton trader survey, 1998.

3) Mean price received by sample farmers from CSPP/MALR and MVE surveys of cotton producers.

Policy Benchmark

A4. Import Tariff on Rice

The GOE will promote market efficiency by reducing the import tariff on rice to a maximum of 10% by June 30, 1999.

Verification Indicator(s)

A4.1 Decree from the GOE reducing import tariffs on rice to 10% or less. The reduction in rice tariff will not be offset by higher sales or other taxes.

A4.2 MOTS will publish a newspaper announcement of the new tariff.

Method

MVE has monitored APRP/RDI efforts to help accomplish this benchmark. Discussions with MALR and MTS advisors have also been informative.

Analysis and findings

The MVE Unit has received a copy of the letter signed by H.E. Dr. Youssuf Wally, Deputy Prime Minister and Minister of Agriculture and Land Reclamation supporting a reduction of the tariff on imports of the regular varieties of rice²³ to 10%.

Minister Wally forwarded his recommendation to H. E. Dr. Goweli, the Minister of Trade and Supply, and H.E. Dr. Mohie El-Din El Gharieb, the Minister of Finance. Copies of these letters are attached in the annex.

Minister Goweli attached his own letter to Minister Wally's letter to the Minister of Finance requesting the reduction of the custom tariff on regular varieties to be 10% by June 30, 1999.

MVE has not received any final evidence of approval by the Ministry of Finance, which is responsible for determining customs tariffs.

Accomplishment

Benchmark partially accomplished

Policy Benchmark

A5. The GOE will issue new regulations that specify the criteria for a region to be allowed to export cotton lint to Egypt. The criteria will be based on acceptable phytosanitary risk.

²³ "Regular varieties" excludes Uncle Ben's, *basmati*, and other expensive, specialty rices.

Verification Indicator(s)

A5.1 MALR will publish a newspaper announcement stating that current regulations are available (*This is a carryover of the unmet portion of Tranche II Benchmark A.9*).

A5.2 MALR (CAPQ) will specify the criteria for regions to be allowed to export cotton lint to Egypt based on assessment of phytosanitary risk.

Method

MVE monitored the RDI consultancy on preparing phytosanitary regulations for cotton lint imports based on regional risk assessment, the output of that consultancy, and follow-up meetings and decisions. MVE also interviewed the RDI task managers, and consultant and former director of CAPQ Taha Sharkawy. MVE met with the Director of CAPQ, Dr. Youssuf El-Daoudi and Dr. Ibrahim El Abbasi, an ARC plant pathologist seconded to CAPQ.

Analysis and findings

Publication and Dissemination of Existing Regulations. Under Tranche II, the GOE codified and published existing phytosanitary regulations regarding cotton lint imports. As part of Tranche III, the GOE was supposed to announce, using a newspaper as the medium, that the formerly scattered regulations had been consolidated and were available from MALR/CAPQ. This has not yet been done, although APRP/RDI did summarize and disseminate the regulations in its June 1998 *RDI Newsletter* (see “Minister Wally Approves Regulations for Importing Cotton Lint,” pp. 4-5, Volume 1, No. 2).²⁴ Other than this article in the *RDI Newsletter*, dissemination to date has been informal and limited. MALR/CAPQ does not consider dissemination and raising of public awareness as part of its mandate. Dr. Youssuf El Daoudi pointed out to MVE that there is a separate public relations office in MALR responsible for that function.

Criteria for Assessing Phytosanitary Risk. A second needed reform, the subject of this benchmark, required the GOE to rewrite existing phytosanitary regulations so that cotton, especially short staple cotton, can be imported from any country which has low phytosanitary risk. The RDI Unit worked closely with the CAPQ on this benchmark. A joint APRP/CSPP consultancy was carried out in February-March 1999 by the former director of CAPQ, Dr. Taha Sharkawy, and Eric Joseph, a Swiss phytosanitary expert. This consultancy produced a draft APRP/RDI Technical Report, *New Phytosanitary Regulations of Cotton Lint Imports into Egypt*, that was reviewed carefully by the Director of CAPQ and his staff based at the ports of

²⁴ The *RDI Newsletter* is an excellent dissemination tool of the APRP policy reform program. All articles are published in English and Arabic. Nevertheless, MVE does not consider this newsletter to be an official medium of the GOE. Announcements in the *RDI Newsletter* are not a substitute for GOE announcements in newspapers or decrees.

Alexandria, Damietta and Suez. Their comments were summarized and submitted to the Plant Quarantine Commission on 22 April 1999. APRP/RDI expects the draft consultancy report to be finalized by the end of July 1999.

Commission Approval of Risk Assessment Criteria. The Plant Quarantine Commission is comprised of representatives from various plant protection, quarantine and pathology institutes of ARC, and the Directors of the Cotton Research Institute and the Field Crops Research Institute. The third item on the agenda for this Commission meeting was risk assessment. As reported in the Minutes and Resolutions of the Commission, Dr. El-Daoudi stated the following:

Probable countries of origin lint imports shall be visited during the cotton growing season to define pests of quarantine importance, assess pest control programs and take prophylactic (preventive) measures before contracting and before and after shipment, especially for countries from which lint is imported for the first time.

- The Commission proposes that APRP would bear the costs of these visits. The visiting task force shall be composed of:
 - entomologists
 - plant pathologists
 - production specialists
 - plant quarantine specialists
- The Commission should start with the neighboring cotton growing countries.
- The Commission has approved the conditions and requirements submitted to it for consideration and implementation if and when cotton lint bales are imported into Egypt.

H.E., the Deputy Prime Minister and Minister of Agriculture and Land Reclamation Youssuf Wally noted on the minutes (see annex) that he had reviewed them and that Dr. Saad Nassar, head of ARC and APRP's PPC, should provide more comments and views, particularly regarding item 3 (risk assessment).²⁵ Minister Wally's brief notes can be construed as approval of the synthesized and consolidated regulations for importing lint cotton (from Tranche II), as well as approval for CAPQ to continue working on specifying criteria for doing risk assessments, particularly through visits to prospective exporters of lint cotton to Egypt

²⁵ The exact translation of Minister Wally's comments in the margin of the Arabic meeting minutes is as follows: "Minutes perused and may Allah grant your success. Brother Saad Nassar for more comments and views, especially Item C." (Translation prepared by Abdul Rahim Mostafa El Madhy for APRP/RDI).

during their cotton growing seasons. Minister Wally clearly seems to be aware of and to support the CAPQ and APRP initiative.

The work to date constitutes broad support for the principle of regional risk assessment in considering lint cotton imports. The RDI/CSPP consultancy report outlines a procedure for specifying criteria and principles for elaborating regulations concerning lint imports. CAPQ has not yet specified the criteria for regions to be allowed to export cotton lint to Egypt based on assessment of phytosanitary risk, although the Plant Quarantine Commission accepts the input of APRP/RDI (the consultancy study) and approves the notion of site visits, during the growing season, to probable countries of origin. APRP/RDI has drafted terms of reference for these visits to the US, Syria, Turkey, and Greece that will be translated and submitted by Dr. Saad Nassar to Minister Wally for approval. APRP is planning to sponsor and pay for the aforementioned MALR specialists to make at least one site visit, most likely to the southeastern United States' areas of upland cotton production, before the end of the 1999 growing season.

CAPQ Publication and Issuing of Criteria for Risk Assessment. As noted in the minutes of the April 22, 1999 meeting, the Plant Quarantine Commission has approved the concept of importing cotton lint, but only under conditions specified for each country after a visit to that country. The general criteria for regions to be allowed to export cotton lint to Egypt, based on assessment of phytosanitary risk, were also elaborated in the RDI consultancy report, though they have not come out under CAPQ cover. CAPQ considers this report as a useful input into the process of developing criteria, but not as a MALR output that clearly states criteria, procedures or policy. In order to develop such a statement, CAPQ regards the site visits to potential cotton exporting countries as a necessary next step.

Dr. Taha Sharkawy has pointed out that ultimately MALR will need to issue a decree specifying procedures to follow in doing regional risk assessments. This decree will not specify individual exporting countries where risk is judged to be low and manageable enough to permit cotton lint imports. Dr. Sharkawy thinks that this decree will serve as an umbrella having a particular article that can be amended each time a country is added to the list of potential exporting countries whose lint can be imported into Egypt. Drafting and issuing of the decree will complete the process, although dissemination of the text of this decree to an audience wider than the usual 4-6 industry participants in APRP/RDI-led discussions to date needs to be seriously considered and done as effectively as possible. Note that a ministerial decree will not necessarily be published in *El Waqeah El Rasmia*, the official journal and dissemination vehicle of the GOE. Regardless of the dissemination method, the whole process is likely to take another 4-6 months.

Need for Broader Industry Awareness of the New Regulations and Risk Assessment Criteria. Dissemination of information about phytosanitary requirements for importing cotton lint to Egyptian importers and prospective importers has been limited. As noted above, CAPQ does not consider this as its responsibility. CAPQ will talk to prospective cotton lint importers who visit its offices and provide copies of the consolidated regulations. CAPQ did note that there

has been limited interaction with a few private traders at seminars and meetings. This interaction has been stimulated and encouraged by APRP/RDI, though the circle of industry participants has been narrow.²⁶ More domestic spinners and private traders need to be included in these discussions with CAPQ, particularly in light of the fact that significant lint imports are likely in 1999/2000.

MVE interviewed traders and spinners who are aware that it has been possible to import cotton lint for several years, but they do not have details on the phytosanitary requirements. The January 1999 tender for imports, issued by the two textile holding companies, explicitly required fumigation under vacuum in the exporting country and a phytosanitary certificate issued by the “competent authority, attesting that the delivered cotton has been fumigated as requested and that cotton, as well as bale covers, are free from cotton seed, parasites and diseases.”

Cotton traders and spinners also maintain that importing lint is very difficult and costly in practice. In addition to the costs of double fumigation, prospective importers note that 2-3 CAPQ inspectors must be flown to the exporting country for extended stays of at least two weeks, and that this cost must be borne by the importers—not the GOE. The aforementioned tender states that Egyptian quarantine officials will have the right to supervise fumigation, loading and sailing of the vessel and to issue a phytosanitary document (approval).

²⁶ Dr. El-Daoudi mentioned that Amin Abaza of Modern Nile, Dr. Wagdy Hendy of Port Said Cotton Trading Company, and a third person had attended the seminar, held at APRP in March 1999, by consultants Sharkawy and Joseph. In addition, APRP/RDI has included Ayman Nassar of Nassco, Hamed El Shiaty, Adel Ezzy of El Watany Cotton and Agricultural Development Company, and Mohamed Marzouk of Giza Spinning and Weaving in discussions with CAPQ at various points.

Most informants report that double fumigation of imported lint is required and that only the United States and Syria have the capacity to do this.²⁷ Hence, imports from neighboring countries such as Greece and Turkey, and other potential suppliers such as Uzbekistan, are perceived by the industry as not possible. Furthermore, they cite the limited capacity of the

²⁷ There is confusion among prospective importers about the need for double fumigation. Many assume that it is an absolute requirement. The CAPQ position in the past has been that it is required for spinning of the imported lint within cotton growing areas. Spinning outside these areas could use single-fumigated lint as raw material. The RDI consultants have recommended that single fumigation at the shipping point of origin be considered satisfactory if CAPQ inspectors have assessed risks as being low and manageable. Proper ginning and handling practices, as well as shipping in (tight) UD bales, minimize risks.

fumigation facility in Alexandria,²⁸ which could prove to be a bottleneck for significant anticipated imports of lint in 1999/2000.²⁹

Accomplishment

Benchmark partially accomplished. As of June 30, 1999, the criteria for doing regional risk assessments have not been finalized, printed under CAPQ cover, and made widely available. Some industry key informants have been involved in the phytosanitary discussions, but participation in these discussions and dissemination of the consolidated regulations could have been broader. The criteria for a region to be allowed to export cotton lint to Egypt, based on acceptable phytosanitary risk, need to be finalized and disseminated. Issuing a MALR decree would complete the formal process. In addition, MALR did not publish the required newspaper announcement (per indicator A5.1).

²⁸ The capacity of the fumigation facility in Alexandria, which can fumigate under vacuum, is reported to be 720 bales per day. This assumes only three treatments of 4 hours each, plus moving the bales in and out. Assuming this takes an hour on either side, the facility would be in operation 18 hours a day. Theoretically, the facility could do another “shift” of 240 bales, reaching 960 bales per day or 209 mt/day. Assuming 300 days of operation per year, this facility can fumigate 62,700 mt/year, equivalent to 1.254 million lint kentars. Note that actual operating capacity may be lower (assuming 720 bales per day) at 47,025 mt or 940,500 kentars.

CAPQ reports that there is a second fumigation facility in Port Said and that both units can do 500 bales per day. At this level of operation, each facility can do 109 mt/day or both can do approximately 6,000 mt per month together. CAPQ stated that the fumigation facilities can only be operated for a few months per year (December-February) outside of the cotton growing season as a further means of minimizing the risk of pest infestation. If this is indeed the case, then actual lint imports may only be 18,000 mt per marketing season.

²⁹ In interviews in Alexandria during late June 1999, MVE learned that most GOE officials and private traders anticipate significant lint imports during 1999/2000 in order to keep the domestic spinning industry operating at the level of 4.0-4.5 million kentars. The size of the 1999 seed cotton crop will be an important determinant of lint import requirements. Assuming a crop of 4.5 million kentars (645,500 feddans * 7 lint kentars/feddan), exports of 2.2 million kentars, carryover of 1.5 million kentars, and local mill consumption of 4.5 million kentars, the domestic spinners will face a shortfall of 0.7 million kentars.

2 PRIVATE INVESTMENT AND PRIVATIZATION

Policy Benchmark

B1. Inventory Disposal

The Textile Holding Companies will allow their Affiliated Companies (AC's) to value and sell obsolete, stagnant and slow-moving excess inventory at market values in preparation for privatization.

Verification Indicator(s)

B1.1 MPE will issue a decree or written policy document stating that all inventories are to be valued and sold at market value.

B1.2 Total inventories of the Holding Companies will be valued at market values and reduced in volume by at least one-third.

Method

This is clearly one of the very hardest policy benchmarks to verify. The only data to which MVE has ever obtained access show aggregate value figures, typically by holding company and only available by affiliated company for one of the three cotton and textile HCs. *MVE has not been able to obtain figures disaggregated by textile product type.* It may be that these data are simply not available in either volume or value form.

The MOU between the GOE and USAID states explicitly that the GOE will assist MVE in obtaining information related to the achievement of benchmarks. In most cases, obtaining the required information is not a problem, but inventory data are an exception.

MVE obtained what volume and value data it could from the textile HCs and from other sources such as IBTCI's *Quarterly Reviews* and the PEO of MPE. The most recent inventory data are for the end of the third quarter, 1 January to 31 March 1999, of the GOE fiscal year.

Analysis and findings

Complete, disaggregated data on inventories of different types of textile products are simply not available.

MVE was able to obtain aggregated figures on the value inventories by holding company, which are shown in Table B1-1. From FY 1996/97 to FY 1997/98, inventory values for the two principal textile HCs dropped 9.0 percent and 5.4 percent. The decline from FY 1995/96 to FY 1996/97 is even more striking: -17.8 and -18.2 percent. Note that although the CIT-HC figures are included, much of this holding company's inventory is in the form of lint cotton carryover stocks, which burgeoned from 1995/96, a year of cotton production shortfall, through 1997/98.

**Table B1-1: Changes in Gross Inventory Value for the Textile Holding Companies,
FY 1993/94 to FY 1997/98**

(LE million)

Holding Companies GOE Fiscal Year	TMT-HC		SWRMC-HC		CIT-HC	
	Amount	%Change from Prev. Year	Amount	%Change from Prev. Year	Amount	%Change from Prev. Year
FY 1997/98	1320	-9	1476	-5.4	2146	25.5
FY 1996/97	1450	-17.8	1560	-18.2	1709	81
FY 1995/96	1763	12.4	1908	24.1	944	-10.4
FY 1994/95	1568	1.4	1538	-13.7	1054	-42
FY 1993/94	1547		1782		1818	

Source: IBTCI, *Quarterly Review for the Period 1 January to 31 March 1999*, USAID's Privatization Project Evaluation Services Contract (Data from PEO/MPE)..

Another measure of the magnitude of inventory is inventory to sales over the same period. This ratio, expressed as a percentage, fell from 47% in 1995/96 to 41% in 1997/98 for the Textile Manufacturing and Trade Holding Company. The SWRMC-HC followed the same pattern, with its inventory to sales falling from 54% in 1995/96 to 41% in 1997/98. This ratio increased from 38% in 1995/96 to 67% in 1997/98 for the Cotton and International Trade Holding Company, again due to the large lint cotton carryover stocks held by the four public sector trading companies that are part of this HC.³⁰

The inventory of lint cotton, expressed as carryover stocks of different varieties and held by public sector trading companies, is easier to quantify, though the relevant reference period is 31 August 1998 to 31 August 1999. In Table B1-2, MVE presents the latest ALCOTEXA estimates of lint cotton inventory for the six public sector trading companies held as of 31 August 1998 and projected inventory for 31 August 1999. In aggregate quantity terms, lint cotton inventory is expected to fall 40.6 percent over the course of the 1998/99 cotton marketing season. Long staple inventory has fallen to very low levels, given high levels of LS

³⁰ The other two cotton and textile HCs have one public cotton trading company each, so lint carryover stocks have much less of an inflating effect upon their aggregate inventory levels than they do for the CIT-HC.

exports (81.5% of total commitments) and as the domestic spinning industry uses up the large carryover stocks of Giza 75 held at the end of the 1997/98 season, and as all remaining stocks of other LS varieties are spun domestically.³¹

³¹ The CIT -HC, with approval from MTS and MPE, discounted Giza 75 by LE 50 per lint kentar beginning in September 1998. This caused inventory to decline rapidly, along with strong export demand for the remaining Giza 75, a variety well-known and preferred by foreign spinners. Giza 75 export commitments were 18,394 mt as of 26 June 1999. Giza 86 was exported in massive volume (58,616 mt as of 26 June 1999), with any remaining stocks unexportable (as lint from the 1998 crop had relatively poor spinnability). All other LS varieties were purchased by the domestic spinning industry to keep public mills running at reasonably high levels of capacity utilization.

Table B1-2: Carryover of Egyptian Cotton, Beginning of Each Marketing Season (September 1 of First Year Listed)
(Metric kentars of lint cotton)

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Extra Long Staple										
Giza 45	14.859	4.560	17.403	39.373	67.100	24.546	23.469	15.891	17.500	41.000
Giza 76	35.675	55.262	69.118	173.268	165.455	45.386	75.208	67.470	80.000	77.000
Giza 70	101.442	170.201	201.652	658.798	1.072.767	187.243	147.676	447.301	760.000	1.200.000
Giza 77	132.518	213.777	158.997	428.830	558.177	61.634	68.712	233.261	352.000	330.000
Others	-	-	-	-	-	-	-	-	3.500	5.000
Sub Total ELS	284.494	443.800	447.170	1.300.269	1.863.499	318.809	315.065	763.923	1.213.000	1.653.000
Long Staple										
Giza 86	-	-	-	-	-	-	-	84.977	307.000	
Giza 69	20.618	-	-	-	-	-	-	-	-	
Giza 75	135.202	199.464	224.382	770.801	598.773	567.102	995.380	1.552.793	904.000	
Dandara	42.466	17.549	50.250	151.917	188.727	11.690	4.559	35	-	
Giza 80	18.892	82.034	36.949	234.975	363.044	57.599	72.997	414.155	110.000	
Giza 81	12.161	4.473	23.193	102.752	29.435	18.406	7	7	-	
Giza 83	-	-	-	37070	53746	23658	33156	294.362	227.000	
Giza 84	-	-	-	-	31.020	27.570	2.811	335	-	
Giza 85	-	-	-	-	10.830	8.531	115.624	404.713	97.000	
Giza 89	-	-	-	-	-	-	-	-	28.000	
Others	-	-	-	-	-	-	-	-	-	
Sub Total LS	229.339	303.520	334.774	1,297.515	1,275.575	714.556	1,224.534	2,751.377	1,673.000	0
Other Varieties	54	1.759	1.496	15.360	7.895	2.189	35.023	12.440	-	10.000
Scarto (1)	330	336	6.234	1.254	5.091	4.254	1.990	2.681	-	-
Mixed & low mixed	12.628	13.735	30.384	29.582	40.805	31.345	20.933	73.341	-	50.000
Sub Total	13.012	15.830	38.114	46.196	53.791	37.788	57.946	88.462	0	60.000
GRAND TOTAL	526.845	763.150	820.058	2,643.980	3,192.865	1,071.153	1,597.545	3,603.762	2,886.000	1,713.000

Source : ALCOTEXA Egyptian Cotton Gazette, April 1999

**Note: 1998/99 carryover figures are estimated and obtained from the CIT HC.
1999/00 figures are projected**

ELS stocks are projected to increase from August 31, 1998 to August 31, 1999, due to a projected net inventory increase of 22,000 mt (or 440,000 metric kentars) of Giza 70, leading to a 58 percent expansion in stocks of that ELS variety. The Giza 70 inventory will likely decrease to a lower level if MTS and MPE decide to discount its price in sales to local spinners, or if ALCOTEXA's reduction of the minimum export price in April 1999 (or in the coming months) leads to greater sales to foreign buyers.³² Both outcomes are materializing, though the inventory-reducing effect will be relatively modest. Industry observers expect that domestic sales of Giza 70 to domestic spinners through October 1999 will be between 230,000 and 300,000 lint kentars. Giza 70 and ELS carryover at the end of the 1998/99 marketing season should approach the levels projected by ALCOTEXA in its April 1999 *Egyptian Cotton Gazette*.

Another source of lint stock data is the CIT-HC, whose latest figures (see table in annex) show that total lint cotton inventory declined from 3,506,175 lint kentars on August 1, 1998 to 1,865,595 kentars as of early June 1999. This decrease of 1,640,580 kentars represents 46.8 percent of the lint stocks as of August 1, 1998. This estimated decline is based on estimated deliveries to local spinners of 4,028,048 kentars and exports of 2,186,285 kentars.³³

A last set of lint cotton data are prepared by ALCOTAN Cotton Trading and Export Company. Their latest figures cover the 1998/99 season up through July 3, 1999 (see table in annex). They show carryover, as of September 1, 1998, of 3,234,154 lint kentars declining to 2,019,539 kentars as of June 30, 1999, a 37.6 percent decrease in nine months. The ALCOTAN figures show deliveries to local mills of 3,575,498 kentars as of June 30, 1999 and export of 2,213,191 kentars.

Accomplishment

Benchmark unverifiable. The MVE Unit has not been able to obtain data on old inventory of finished products at the beginning and at the end of the tranche III period. MVE is not aware that the MPE issued a decree or written policy document stating that all inventories are to be valued and sold at market value, although this is apparently the informal guidance under which the holding companies are operating.

³² Giza 70 export commitments as of 26 June 1999 stood at 12,118 mt. It is also reported that the GOE has begun to offer Giza 70 to public spinning companies for a discount of LE 42-43 per lint kantar, using the current ALCOTEXA minimum export price of 104 cents/lb. as a point of departure for pricing lint to domestic spinners (as opposed to the 117 cents/lb. opening export price).

³³ Actual export commitments as of 26 June 1999 were 2,212,671 lint kentars. Estimated deliveries to domestic mills as of 12 June 1999 were 3,487,328 lint kentars or 174,366 mt (as reported in *Cotton Outlook*, Vol. 77, No. 25, 25 June 1999).

Policy Benchmark

B2. Privatize Three Spinning & Weaving AC's

The Textile Holding Companies will privatize at least three spinning and weaving affiliated textile companies.

Verification Indicator(s)

B2.1 Privatization of three spinning and weaving affiliated companies through one of these accepted forms of privatization — management contract, leasehold, share sales (over 50% of stocks purchased by the private sector), management buy-in/out, employee buy-in/out or anchor investor sales.

Method

MVE interviewed the chairmen of the three cotton/textile holding companies, as well as chairmen of some of the textile ACs under privatization.

Analysis and findings

Realistic Valuations. IBTCI notes in its *Quarterly Review for the Period 1 January to 31 March 1999* under USAID's Privatization Project Evaluation Services Contract that there is evidence of more realistic valuation of public companies to be privatized. Sales to anchor investors in early 1999 at prices below CAA recommendations reflects the MPE's willingness to price public companies closer to their underlying market values, which should expedite the privatization process.

Debt Resolution. In addition, as noted in the July, 1998 *Tranche II Verification Report*, MVE stated that debt of the ACs of the three cotton and textile holding companies was being reduced through HC payments and forgiveness of some of the debt. According to IBTCI's *Quarterly Review*, the debt status of the three textile holding companies had significantly improved by 30 June 1998. Of the LE 2.8 billion debt before settlement, nearly LE 1.1 billion, or 38.8 percent, was written off by the end of the GOE's 1997/98 fiscal year. Another LE 587.4 million, or 20.9 percent, was paid off. The remaining debt to be rescheduled was LE 1.13 billion, or 40.3 percent of the original debt. This debt remains under negotiation between the HCs, four public sector banks (Banque du Caire, NBE, Bank of Alexandria, and NIB), and the ACs.

Table B2-1: Debt Settlement of the Three Textile Holding Companies
(LE thousand)

Holding Company	Debt Before Settlement	Debt Written Off	Debt Paid	Remainder to be Rescheduled
Cotton & Intl.	1045167	361567	193900	489700

Trade				
Textile Manufacturing & Trade	809000	163000	270000	376000
Spinning, Weaving & RMC	955156	565754	123502	265900
Total	2809323	1090321	587402	1131600
Percentage of Total	100.0%	38.8%	20.9%	40.3%

Source: IBTCI, *Quarterly Review for the Period 1 January to 31 March 1999*, USAID's Privatization Project Evaluation Services Contract (data from PEO/MPE).

Significant paying off or transfer of the debt of a company to be privatized is an important precondition for successful privatization of heavily debt-burdened textile companies. This will help to facilitate and expedite privatization of public sector spinning and weaving companies. Privatization Efforts Underway. All of the steps in the privatization process preceding public announcement have been taken for two spinning and weaving companies: STIA and Shebin El Kom Spinning and Weaving Company. The Textile Manufacturing and Trade Holding Company is expected to announce publicly its intention to sell STIA to an anchor investor in July 1999. This is likely to be followed by a similar announcement for Shebin el Kom later in the first quarter of the GOE's 1999/2000 fiscal year.

Note that it is very difficult to obtain documentation on the privatization process before the GOE makes a public announcement of an IPO, anchor investor bids are being solicited, or prospective partners in a leasing or management contract are being sought. The MPE, relevant holding companies, and interested affiliated companies wish to keep valuations of company assets and detailed information about the privatization process confidential in order to give all prospective bidders a fair chance to make a bid or negotiate a lease or management contract. By keeping details of the process quiet, the interested GOE parties avoid accusations of favoritism, unfair play, and cronyism.

Negotiations are underway between Sharkeya Spinning and Weaving Company (and the Spinning, Weaving and RMC Holding Company) and a prospective lessee over a ten-year lease for its plants at Mina El Kamh. Korean investors are also negotiating a leasehold with Amriya Spinning and Weaving Company, a joint investment company whose owners are public entities. As in the case of the two TMT-HC textile companies, leases are likely to be signed during the first quarter of the fiscal year 1999/2000. MVE was unable to obtain details on the planned timetable.

According to *Cotton Outlook* (Vol. 77, No. 21, May 28, 1999), half of the shares of Delta Spinning and Weaving Company, held by the SWRMC-HC, have also been offered for sale at LE 197,900,000. No other details are available.

Although privatization of ginning companies is not part of this benchmark, it should be noted that the GOE has approved offering 50 percent or more of the shares of two ginning companies for sale. These companies are Misr Cotton Ginning, where more than half of its shares will be offered at a reserve price of LE 148,000,000, and El Wady Cotton Ginning, where half of its shares will be offered at LE 116,000,000. The public announcements of sale are expected early in the next GOE fiscal year (1 July 1999-30 June 2000). Note also that the SWRMC-HC is planning to sell the Delta Ginning Company next fiscal year.

The public announcements of MPE's intention to sell the textile and ginning companies have been anticipated for some time. The main source of delay has been the mediocre performance of the stock market and its perceived lack of depth, which make IPOs impractical. Furthermore, it is not clear if potential anchor investors will step forward as bidders. Public sector spinning and weaving companies are facing serious problems in selling their products in both the domestic and international markets. The domestic market is reportedly completely saturated, and most Egyptian consumers' incomes are low, limiting demand. Asian countries dominate world textile markets, having devalued their currencies and producing textile products at lower cost than Egypt. Egyptian textile companies are facing great difficulties in selling their yarn and fabric in the EU and U.S. markets, where they are subject to quotas. Minimum export prices, set by TCF's Commercial Committee (see benchmark A2), as well as fear of triggering anti-dumping penalties, constrain export pricing flexibility and the ability of the public spinners and weavers to export. All of the above factors are undermining the performance of public sector textile companies and will make privatization difficult to achieve.

Nevertheless, on July 16, 1999 the Ministry of Public Enterprises (MPE) announced in the El Ahram daily newspaper on behalf of the three textile holding companies that it was offering for management contracts eight affiliated companies, including the following spinning and weaving companies:

- Misr Helwan for Spinning and Weaving
- El Sharkia for Spinning and Weaving
- El Nasr for Spinning, Weaving and Tricot (Shourbagui)

These management contracts will be through the modernization and development program of the MPE to improve the status of these companies from unprofitable to profitable firms as part of the privatization program.

Although two ginning companies were privatized in 1996/97, privatization of the remaining public gins may founder on high land valuations, the sheer magnitude of investment funds required to buy a ginning company with multiple gins (mills), excess industry capacity (despite recent closures of some small, inefficient mills in urban areas), and the industry's limited ability to raise ginning charges in light of excess capacity.

Accomplishment

Benchmark partially accomplished. The textile holding companies have not yet concluded sales or leases of any of their ACs during tranche III. Significant progress has been made,

however, in preparing four spinning and weaving companies for privatization, and MPE has announced an offer to conclude management contracts for three spinning and weaving companies.

Policy Benchmark

B3. New Private Sector Jobs

The GOE will take measures to improve the enabling environment for private investment in the cotton textile sector so as to ensure that at least two thousand new private sector jobs are created by private enterprises engaged in cotton ginning and spinning.

Verification Indicator(s)

B3.1 Private sector employment in cotton ginning and spinning in 1999 has increased by at least 2,000 new jobs over the prior year as a result of new private investments or expansions of existing businesses (*not including privatization as defined under B.2*).

Method

MVE Unit staff and consultants, during the process of verifying this benchmark, discovered many private spinners, while it was commonly thought that there was only one. Some of them are spinning cotton, some are mixing cotton with synthetics like polyester, nylon, acrylic, and rayon, and some are spinning waste to produce coarse counts of yarn.

MVE Unit staff and consultants conducted interviews and meetings with all private ginners and spinners. Two spinners, Giza and Riyad Co., could not be interviewed. The MVE Unit estimates no increase in jobs at these companies. The annex includes a list of the spinners that MVE interviewed personally or by telephone.

Dr. Adel Mostafa managed the implementation of an in-depth survey of private sector spinners. Most of the interviews (questionnaires) were conducted by Dr. Ezz Abdel Kader, Nabil Santrecy, and Dr. Samir Arram. Dr. John Holtzman helped to develop the survey instrument. **This survey will assist the Unit in verification, in monitoring, and in impact assessment. The initial population of 76 was narrowed to 44 by eliminating those who were found to be spinning pure synthetics. Of those, it was found that 12 more were also spinning synthetics, leaving 32 private cotton spinners. The consultants could not reach two of them, and one was found to not be private. This left 29 private spinners of cotton and cotton/synthetic yarn. Table B3-2 shows the names, locations, and employment of these spinning companies. Dr. Adel Mostafa personally interviewed a number of key spinners (interview notes are available in the unit's database).**

In addition Dr. Adel guided this team of consultants in surveying additional spinning firms in Fowah. This survey was limited by available time but accomplished its objective with respect to jobs. For the Fowah spinners' survey, the consultants contacted a sample of 12 companies in Fowah, representing 10% of the population (the total number of companies was estimated at 120); four of the firms were covered by the more detailed spinners' survey as well. Because of time constraints, the sample was chosen on the basis of the nearest, the most cooperative, and the ones who have good knowledge about the industry. These factories and their production quality and techniques, are homogeneous; they give the appearance of being established by one person, even though there is no association or government organization to which they belong. During the survey, the research team discovered that the reasons behind this homogeneity are imitation and inheritance. Because of the homogeneity of the population, the sampling method does not bias the results of the survey.

Analysis and findings

MVE consultant Dr. Mohamed Abdel Sadek El Santricy met with the private sector ginners, as part of his assignment to verify the changes in the ginning sector. The ginners included

Arabia Ginning Company, Egypt Ginning Company (which is an Arabia investment but has a separate board of directors), Nile Ginning Company, Nefertiti Cotton Trade, and Nassco Cotton Trade (which operate for Delta Ginning) as shown in Table B3-1.

In the ginning sector the main finding was that some private ginning companies, especially those that had been privatized, showed a tendency to reduce employment, since they are trying to improve their efficiency. Some companies, however, are also trying to improve the quality of their cotton, rationalize resource allocation, and increase their efficiency; they added new cleaning lines and farfarah in the gins, plus new pressing units to export directly from the gins. These changes are behind the net increase of labor in these firms.

To calculate the increase in jobs achieved through private activities in the cotton ginning sector, the following two points must be taken into consideration:

- The seasonal and contractor employees work only during the season (nine months from September through May).
- These seasonal and contractor employees work two shifts (16 hours) daily, which means two jobs for each of them.

Note that in verifying job creation, the MVE is careful to distinguish between jobs (positions) and employment (workers). If a worker works two shifts all year, he is occupying two full-time equivalent jobs.

Table B3-1 shows the permanent, seasonal and contractor employment during the period 1994/95 - 1998/99 in the five private ginning companies. Permanent jobs in ginning decreased during the year ending June 30, 1999 by 56 jobs as a result of the normal and early retirement, and as there were no additional jobs for office staff. Nevertheless, the ginning companies increased their full-time-equivalent jobs by 619.

There was an increase of 450 seasonal and contract workers. The increase in seasonal and contractor jobs is calculated as follows :

$$\begin{aligned} 450 \times 0.75 &= 337.5 && \text{(adjustment for length of season)} \\ 337.5 \times 2 &= 675 && \text{(adjustment for number of shifts)} \end{aligned}$$

Then the net increase in jobs in ginning is $675 - 56 = 619$.

The other sector which MVE verified was the spinning sector, where its survey showed two groups of spinners :

- The newly established spinning sector, which includes the highly sophisticated ones like Alcan Mana'aie in Sadat City, which spin the high counts (60 and more), and the privatized modern ones like Alexandria Spinning & Weaving, and others as shown in

table B3-2. Some of them are newly established as a result of the liberalized environment and the privatization process.

- The traditional type of spinning mills which are scattered all over Egypt, but started to grow and expand as a result of the reform policies. One location where these mills are concentrated is in Fowah district.

The number of additional jobs created in the new spinning sector was 874, as shown in Table B3-2. In estimating the number of jobs created, it is assumed that half of the workers work two shifts. This is a conservative assumption based on interviews with the private spinners (interview notes are available in the Unit database). It is also consistent with the common practice of providing transportation for workers and the need to minimize this transportation cost.

Fowah district is in Kafr El Sheikh governorate, the middle part of the north section of the Nile delta, and is located in the northwestern part of the governorate, which is near to the Mediterranean Sea at Rashid. The population of Fowah is about 150,000 persons, and the cultivated area is about 340,000 feddans. Most of the population work in farming, except in the industrial zone, where most of its people work in the spinning and weaving industry.

The MVE consultants visited Fowah district after discovering that this district has about 120 spinning companies (some of them also weave) producing a certain kind of coarse yarn (for weaving blankets, carpets, kilims, and bedspreads)) by using the waste of the textile industry (between 20% - 35% cotton waste). The annex includes the list that MVE got from the Fowah District and City Council which details the exact number of spinners in Fowah district, which is now 134 spinners.

The visit aimed to obtain data and information about this location, which had been an unknown area on the map of the textile industry in Egypt. The area has only one registered factory in the Egyptian Textile Manufacture Federation (ETMF). This industrial zone can be regarded as a unique phenomenon among the industrial zones in Egypt.

The group classified the 120 companies by the number of lines in each factory, though the contents of the production line and the number of workers on each line -as mentioned before- are the same in all factories.

The factories were classified according to number of lines (in May, 1999) as follows :

- 100 factories with two production lines
- 15 factories with three production lines
- 5 factories with one production line

The spinning industry in Fowah started to develop and use advanced machinery after 1950. Most of the owners of these companies run the factories themselves. They have inherited this job from their fathers and grandfathers, and they are very proud of this industry.

The number of workers required to operate one production line (36 spindles) is 16-23 workers/day. The number differs according to the need of the factory and the number of shifts (see table B3-3).

Table B3-1: Permanent, Seasonal and Contractor Employment in Private Cotton Ginning Companies, 1994/95-1998/99

Ginning Co. Season	Arabia Company			Egypt Company		Nile Company				Nefertiti Company			Nassco Company ⁽²⁾	
	Perm .	Seas.	Contr.	Perm.	Seas.	Perm .	Seas.	Contr.	Seed ⁽¹⁾ Proces s	Perm .	Seas.	Contr.	Perm.	Seas.
1994/95	1238	567	2206	0	0	1106	523	1935	682	0	0	0	0	0
1995/96	1201	578	2159	0	0	1100	528	1800	665	0	0	0	0	0
1996/97	1160	552	2080	0	0	1073	560	1890	640	0	0	0	0	0
1997/98	1052	523	2031	0	0	1040	508	1906	608	0	0	0	0	0
1998/99	992	518	1994	30	224	988	502	1922	597	20	30	100	6	128
Difference (98/99) - (97/98)	-60	-5	-37	30	224	-52	-6	16	-11	20	30	100	6	128

Source: MVE interviews with ginning companies.

(1) Represents permanent and seasonal employment in factories of seed processing at Anderson gin in Elmenia.

(2) Its activities include two farfarah hall in Kafr El-Dawar and Sherbin gins, Delta Company for Cotton Ginning.

Table B3-2: Jobs Generated in the New Private Spinning Sector, May 1998-May 1999

	May 1998			May 1999			May 1998			May 1999			May 1998		
	Office	Enclave	Total	Office	Enclave	Total	Office	Enclave	Total	Office	Enclave	Total	Office	Enclave	Total
Dahukia															
Deiroutay Trade & Industry	6	24	40	6	51	57	6	24	40	6	51	57	0	0	0
Dis Ennet	0	170	100	0	250	266	25	545	570	25	919	942	17	560	577
Enneton Co. for Cotton Spinning	0	0	0	0	0	0	4	26	40	4	54	50	4	54	50
Total	14	206	220	14	200	222	25	615	650	25	972	950	21	614	625
Giza															
Enneton Al Ennet for Spinning &	0	0	0	0	0	0	7	02	100	7	140	147	7	02	100
Total	0	0	0	0	0	0	7	02	100	7	140	147	7	02	100
Monofeya															
Alcan Monofei	0	0	0	0	0	0	27	72	100	27	110	127	27	72	100
Total	0	0	0	0	0	0	27	72	100	27	110	127	27	72	100
Alexandria															
Enneton	25	125	150	25	100	212	25	125	150	25	100	212	0	0	0
Elmhak															
Alexandria for Spinning & Weaving	257	2 212	2 560	257	4 910	5 175	247	2 126	2 472	247	4 690	5 026	10	96	06
Enneton International for Investment	11	50	70	11	90	100	11	50	70	11	90	100	0	0	0
Attalla Trading	10	160	170	10	240	250	10	160	170	10	240	250	0	0	0
Misr El Amonia	222	1 710	1 022	222	2 565	2 707	222	1 710	1 022	222	2 565	2 707	0	0	0
Total	1 025	12 406	12 441	1 025	19 600	10 644	1 025	12 220	12 245	1 025	19 490	10 505	10	96	06
Dakahlia															
Dawitay	2	10	20	2	27	20	2	10	20	2	27	20	0	0	0
Total	2	10	20	2	27	20	2	10	20	2	27	20	0	0	0
Sharbia															
10th of Damadon Co	7	60	75	7	102	100	0	91	00	0	122	121	2	12	15
AlMidani	2	77	90	2	116	110	4	96	00	4	120	122	1	0	10
Misr El Khomh	200	1 750	1 050	200	2 625	2 925	200	1 750	1 050	200	2 625	2 925	0	0	0
Total	210	1 905	2 105	210	2 942	3 052	212	1 017	2 120	212	2 976	3 090	2	22	25
Charbia															
Mohamed Metrouli	0	0	0	0	0	0	7	52	60	7	90	97	7	52	60
Al Dawia for Spinning	0	0	0	0	0	0	6	44	50	6	66	72	6	44	50
Total	0	0	0	0	0	0	12	07	110	12	146	150	12	07	110

Grand Total	1261	14525	15786	1261	21788	23040	13322	15133	16455	13322	22700	24022	61	813	874
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Source: Calculated from the MVE Spinners' Survey, May, 1999.

The Fowah spinners cited the following reasons as the causes of increases in the number of jobs:

- Most of the factories are moving towards operating 2 or 3 lines instead of 1 or 2 lines.
- The increase in demand for products using yarn from Fowah. One example is Startex, which is currently cooperating with Al Fadali to finish an order of 200,000 blankets. The company also has some orders for export to Italy, Germany, and South Africa.
- Some companies are planning to add new lines to produce cotton yarn to use as the warp threads for kilims, blankets, and carpets, and which they currently purchase from the public sector.
- The increase in the number of spinning workers in Fowah is related to the increase in the number of weaving workers in Mehalla, as the factories they work in use Fowah's yarn as a raw material. He estimated the number of private weaving workers in Mehalla at about 6000 - 7000 workers.

Table B3-3: Spinning Jobs in Fowah

Job	Number of Workers/Line (26 workers)
Grading	4 - 6
Prenarino	2 - 4
Carding	2 - 3
Condensing	2 - 3
Spinning	2 - 3
Machinist	1
Supervisor	1
Accountant	1
Security	1
Total Number/Line	16 - 23

Source: MVE interviews with spinners in Fowah.

Table B3-4 illustrates the number of newly created jobs in Fowah. Note that while some workers may work more than one shift, a conservative estimate is used here, namely that each worker works only one shift.

According to the three analyses above, the total newly created jobs in private ginning and spinning activities are as follows:

- Ginning activities - 619 jobs
- The “new” spinning sector (excluding Fowah) - 874 jobs
- The traditional spinning sector in Fowah - 972 jobs

Thus the total number of jobs created is 2,465.

Privatization of ginning has been a successful program of the Government in recent years. Thus it is not surprising to see a significant number of new jobs created, in spite of those jobs “lost” to rationalization of employment.

The surprisingly strong and recent investment in private sector spinning capacity cannot be attributed to one particular policy decision or regulatory change. Rather, this investment lagged cotton and textile subsector liberalization measures by several years, and it is typical of countries that have transformed publicly owned and managed industries into mixed and private sector dominated systems. Private investors in formerly socialist countries typically wait several years following the beginning of liberalization of a marketing system for a key commodity and privatization of some public sector companies. They pay keen attention to whether the government stays the course of liberalization (avoiding policy reversals and back-sliding), and whether former and current public sector companies continue to enjoy special privileges and preferential credit, marketing or other arrangements. Once liberalization appears to be irreversible, these private investors are prepared to commit their own capital to costly new investments. This is what has happened in the spinning industry. Note, however, that investors have purchased second-hand equipment in many cases to keep their capital costs down, and in part as a hedge against the risk of policy back-sliding.

Two other factors merit highlighting. Note that new spinners (as opposed to privatized, former public sector companies) target particular niche markets not well served by the large public sector spinners. One of these niches is spinning of low-count yarn, often using waste from ginning, carding, combing, weaving and even RMG production. A second niche is spinning of higher-count yarns, which meet exacting specifications, for particular foreign investors and customers. This niche may seem redundant with much public sector spinning capacity, but it is not, in that most public spinners spin low to medium count yarn, and most face quality and reliability problems as suppliers.

Accomplishment

Benchmark accomplished

Table B3-4: Number of Newly Created Jobs in the Spinning Sector of Fowah, May 1998 compared with May 1999

Company	May-98			May-99			Created Jobs in 1999	Number of Companies	Created Jobs in 1999
	Number of Lines	Number of Shifts	Number of Workers	Number of Lines	Number of Shifts	Number of Workers	Sample Level	in Population	Population Level
Al Sayed Weza	1	2	20	1	3	36	16		
Al Mabrouk Al Liboudi	1	2	22	1	3	38	16	5	80(1)
Statex	2	2	32	2	2	35	3		
Al Fadali Spinning & Weaving	2	2	27	2	2	29	2	43	459(2)
Abdallah Hantira	2	2	24	2	2	26	2		
Reda Hantira	2	2	22	2	2	24	2		
Al Bassat for Carpets & Spinning	1	2	27	2	2	36	9		
Rashad Abu El Saad	1	2	30	2	2	42	12	57	128(3)
Mabrouk Karam	1	2	29	2	2	40	11		
Ali Bassal	2	2	56	3	3	78	22		
Gamal Mohamed Abu Ahmed	2	2	58	3	3	82	24	10	230(4)
Weza for Industry and Trade	3	2	27	3	3	42	15	5	75(5)
Total								120	972

Source: MVE interviews with spinners in Fowah.

- (1) Additional labour due to adding one shift to the factories of one production line (5 factories) 16 workers/shift/line: 5 factories x 16 workers = 80 workers
- (2) Additional labour due to adding one production line to the factories of two production lines: 43 factories x 10.67 workers = 459 workers
- (3) Additional labour to increase the production efficiency per line in the 2 line factories: 57 factories x 2.25 workers = 128 workers
- (4) Additional labour due to adding one line to the factories of 2 production lines (10 factories) 10 workers/line: 10 factories x 10 workers = 100 workers
- Additional labour due to adding one shift to the previous mentioned factories of 3 production lines: 10 factories x 13 workers = 130 workers

Sub total, increase in workers : $100 + 130 = 230$

(5) Additional labour due to adding one shift to the factories of 3 production lines (5 factories) 13 workers/shift/line: $5 \text{ factories} \times 15 \text{ workers} = 75 \text{ workers}$

Policy Benchmark

B4. Rice Mill Privatization

The GOE will privatize one public sector rice-milling company or a majority of the individual units (rice mills) thereof. (This is a carryover of the unmet portion of Tranche II Benchmark B.4).

Verification Indicator(s)

B4.1 Privatization of one rice-milling company or a majority of the individual units through one of the accepted forms of privatization — management contract, leasehold, share sales (over 50% of stocks purchased by the private sector), management buy -in/out, employee buy-in/out or anchor investor sales.

Method

MVE obtained the relevant documentation of sale of five public rice milling companies to ESAs from MPE. MVE has been regularly briefed by RDI about progress in conducting workshops on ESA orientation and corporate governance as part of its post-privatization assistance program to the former public milling companies.

Analysis and findings

Five contracts for selling the shares to employees were issued on the following dates:

- Rashid Rice Milling Company on September 26, 1998
- Beheira Rice Milling Company on September 26, 1998
- Damietta and Belkas Rice Milling Companies on October 10, 1998
- Dakahlia and Alexandria Rice Milling Companies on October 10, 1998.
- Gharbia Rice Milling Company on December 12, 1998

The shares of these companies were sold to the employee stakeholder associations (ESAs), which own 90% of the shares in the five companies, while the Holding Company owns 10% of the shares. The workers' unions in the five companies were established and registered according to stock market law No. 95/1998. A separate decree was issued for each ESA. These sales were made according to the last valuation approved by the Ministerial Committee for Public Enterprises (privatization program).

In collaboration with ADALA, an NGO that supports ESA companies in Egypt, RDI conducted a series of workshops with the ESAs of the rice milling companies, beginning in November 1998, to promote awareness of employee ownership and clarify the idea of employee and management responsibilities. As noted in the *RDI Newsletter* of December 1998 (Vol. 1, No. 4), the goals of these workshops were to:

- examine the benefits of employee ownership, and clarify definitions of key concepts
- explore the principles and factors important in stake allocation systems³⁴

- present success stories from majority Egyptian ESA companies
- develop a shared vision for leadership and management in building a successful ESA-run company

A workshop for all the ESA rice milling companies and the head of the Rice and Flour Mills Holding Company was held in Alexandria on May 16, 1999 to solve problems and clarify with the Holding Company the future steps needed to make the newly privatized companies operational.

In June 1999, RDI began a second round of one-day workshops, company by company, on “Strengthening Corporate Governance” to discuss the roles of management, the ESA Board, and employees as partners in corporate management. RDI has also planned a third round of organizational development workshops to assist the companies to reshape their businesses after taking over their management. Five days will be allocated to each company, beginning in August 1999, and discussions will focus on strengthening financial and marketing management systems, which are key areas requiring immediate attention. These workshops will address the concepts of developing business plans and dedicated marketing units.

The annex includes the entire contracts for the sales of Damietta and Belkas, as well as the first and last page of the other three contracts.

Accomplishment

Benchmark exceeded

Policy Benchmark

B5. Joint Venture Privatization

The GOE will privatize at least 15 joint venture agribusiness companies by June 30, 1999.

Verification Indicator(s)

B5.1 The GOE will divest its shares of at least 15 joint venture agribusiness companies.

Method

MVE interviewed RDI staff, particularly Mrs. Amani El Fekhi, working on this benchmark and a key MTS official responsible for the divestitures. RDI developed and maintained a matrix to track progress in privatization of the joint venture companies. This matrix provided detailed status updates and proposed actions to resolve constraints and move privatization forward.

Analysis and findings

RDI has worked closely with MTS over a six-month period to speed up privatization of the joint venture companies. The factors slowing liquidations of some of the JV companies are legal disputes, unresolved bank debts or tax bills, and long CAA reviews of valuation reports.

In quite a few cases of the 40 joint venture companies that are candidates for privatization, the responsible party that needs to take action is not the MTS, but instead a bank, the CAA, or a governorate. This has represented a serious constraint to privatization beyond MTS control.³⁵ There are also companies where public ownership is a minority (5-15%)³⁶, and the company's management (Board of Directors) has slowed privatization.

In light of these delays and constraints, Ayman Abdel Ghaffar, the undersecretary in MTS responsible for divestiture of the JV companies, instructed the RDI Unit to undertake and complete 10 valuations in three months (April-June 1999). The three RDI analysts have helped to do seven of those valuations. Each valuation committee was comprised of a representative from RDI, a public sector representative (representing an HC or the public sector AC), and technical and financial officers of the company being valued. The entire review process has been completed for one valuation, while the other six are at different stages of review.

RDI also worked closely with MTS to design a data base for all 400 joint venture companies that provides privatization status by company, ownership structure, the key contact person for each company, company profiles and some basic financial data and ratios. This data base is proving to be a useful tool in monitoring and speeding up the privatization process. Over the medium run, MTS plans to create a unit like the PEO within MTS to do valuations, manage and monitor the privatization process, and negotiate with prospective private sector buyers of public shares.

Two full privatization transactions have been completed in 1999, and one other privatization is partially completed. All of the public shares of Misr Gulf for Oil (MIGOP)³⁷ were sold on the stock market at LE 15/share on March 24, 1999, including those held by the Egyptian Industrial Development Bank. The Ministerial Privatization Committee approved the sale of public shares in the Egyptian Markets Company on March 22, 1999. The partial privatization was for Ismailia Misr Poultry Company. The public sector shares of the United Poultry Production Company (16.7% of the total shares) were sold, but the shares of El-Sharki Insurance Company (9.09%) and Banque Misr (15.15%) have not yet been sold.

The companies that are privatization candidates that were presented at the last meeting of the Quattro Committee³⁸ on June 20, 1999 were as follows. The Quattro Committee decisions and follow-up are noted.

- **Egyptian Agriculture for Seeds (EGASEED):** PBDAC has been appointed as the sales agent for EGASEED in an upcoming sale to an anchor investor at LE 76.6 per share.
- **Free Port Said for Agricultural Projects and Green Houses:** Further action is delayed until an outstanding land dispute is resolved. Once this has happened, a valuation will be conducted.

- Ismailia El Watanya for RMG: Alexandria Bank has been appointed as the sales agent in an upcoming sale to an anchor investor at LE 27.5 per share (with a 10% allowance for a decline in the share price).
- El Mohandes El Watanya for Food Processing: Valuation has been postponed.
- Ismailia Misr for Cooling: Bank Misr has been appointed to approach an interested buyer to expedite a sale. If this sale is not consummated, the company will be offered to a strategic investor through underwriters at LE 26 per share.

It is also reported that the privatization plans for SOFICO and Abu Qir Fertilizer Company will be presented at an upcoming Ministerial Privatization Committee meeting for approval. In particular, the Committee will likely discuss and approve SOFICO's valuation report, done by the company's General Assembly and the CAA, and the plan for sale of public sector shares in Abu Qir. Privatization of Abu Qir was postponed until the fertilizer company finished its expansion plans. The expansion was completed, and trial runs were done in March, 1999, so privatization can now proceed.

In comparison to one year ago, MTS is in a stronger position to push ahead with privatization of joint venture companies in 1999/2000. Valuations will soon be completed for seven JV companies, and these valuations are in the process of being reviewed and finalized.

MVE has modified and summarized the MTS/RDI privatization tracking matrix to summarize progress as of early July in valuation and privatization of each of the 40 companies. This modified matrix appears in the annex.

According to IBTCI's *Quarterly Review for the Period January 1 to March 31, 1999* under USAID's Privatization Project Evaluation Services Contract, MTS has sold all of its (publicly owned) shares in 13 joint venture companies to the private sector, and part of its shares in another 16 companies (though these are not the agribusiness companies targeted by this benchmark).³⁹ IBTCI notes that the MTS privatization program for the joint venture companies "cannot be monitored," because "It may take time before a PEO-type program can be properly staffed to support privatization of these 363 firms and to provide appropriate financials for their monitoring and evaluation" (p. 3 of *Quarterly Review*). Note that RDI has made a good start in supporting MTS, though a PEO-type office would be welcome.

Accomplishment

Benchmark partially accomplished

Policy Benchmark

B6. Leasing and Management Contract Guidelines

The GOE will publish leasing and management contract guidelines to regulate the privatization of public textile companies.

Verification Indicator(s)

B6.1 Formal leasing and management contract guidelines for public sector mills (or generically for public sector units). These will include the procedures that the public sector mills will follow in offering a unit for lease or management contract, in pre -qualifying bidders, selecting successful bidders and negotiating with the private sector. They should also detail the procedures for the private sector, including how to express interest in lease and management contract of a public mill, to collect information, and to bid.

Method

MVE interviewed RDI staff working on this benchmark and reviewed a copy of the report on leasing and management guidelines prepared by an RDI consultant. In late June 1999, MVE attended a workshop in Alexandria, at which the guidelines were distributed, presented, and discussed (see list of attendees in the annex).

Analysis and findings

As noted in the introduction to the *Workshop Report on Options for Leasing: Alexandria, November 17-18, 1998*, the rationale for this benchmark was to “develop a transparent procedure that will identify facilities which could be placed under contract and to solicit potential lessee or management contractors.” RDI, in consultation with the PEO, the textile holding companies, and public textile companies (ACs), led workshops on leasing and management contracts in Alexandria (November, 1998) and Cairo (April, 1999). Attendance of key officials and public and private spinners was good, and the participants discussed a broad range of pertinent issues at these workshops.

Following the November workshop, RDI produced a *Workshop Report on Options for Leasing: Alexandria, November 17-18, 1998*. This report generated a scope of work for a working group to develop leasing guidelines through a background paper on key issues, a series of workshops, visits by the working group to facilities being managed under operational leasehold or management contracts (in Egypt and in one other country), and an invitation to Indian experts to come to Egypt to present and discuss their versions of leasehold contracts. Based on these inputs, the working group would prepare draft operational leasing and management contract guidelines, which would be presented at five stakeholder workshops for discussion. The working group reviewed the leasing and management contract literature, though there was no visit to any foreign facility under operational leasehold or management contract, and no Indian experts visited Egypt to discuss their experience. Textile Manufacturing and Trade Holding Company training specialist Gen. Assem Shams El Din was the MPE representative to the working group.

Following the April, 1999 workshop, the Egyptian Company for Industry Support (ECIS), consultants to RDI, drafted *Guidelines for Developing Leasing and Management Contracts for GOE Spinning and Weaving Companies* that were circulated to MPE, the three HCs, and affiliated textile companies in June, 1999. The *Guidelines* cover the following topics:

- how to prepare and present the financial, technical and market analysis of the baseline situation of particular spinning and weaving companies to prospective buyers, lessees or managers
- sale and contract options, and selection of appropriate options
- advantages and disadvantages of leasing and management contracts
- offering procedures (preparing and advertising a RFP and book of conditions)
- developing selection criteria
- pre-qualifying bidders
- negotiating terms and procedures
- arbitration agreements, contract termination, and repossession in case of default.

The *Guidelines* are written primarily from the perspective of, and for the benefit of, officials of the textile holding companies and the public sector spinning and weaving companies. A prospective bidder can intuit how to express interest in lease and management contract of a public mill, to collect information, and to bid, though the *Guidelines* do not provide explicit, step-by-step procedures for doing so.

RDI has begun to meet with the managers of a number of the participating textile ACs in order to discuss the *Guidelines* and opportunities for leasing out units or signing management contracts with qualified management experts. RDI and MPE held a workshop in Alexandria on 27-28 June 1999 to announce and present the *Guidelines*. Two key MPE officials and the chairmen of numerous public sector spinning and weaving companies attended and participated actively in this workshop. The holding company chairmen were unable to attend. The workshop organizers solicited comments on the *Guidelines* and asked for attendees' input prior to their finalization. They also called for a follow-up organizational meeting that would plan for a "showcase" event, at which public textile companies would present their companies to prospective private investors and lessees. This event would take place some time in the second half of 1999.

In summary, the working group has issued the leasing and management guidelines, they have been circulated, and there has been some forward movement towards their application. Parts of Cairo Silk and ESCO were leased out in 1997/98, and the working group has drawn upon their experience. In addition, leases are being negotiated by Sharkeya and Amriya Spinning and Weaving Companies with prospective foreign partners. *An important final step is to get Minister Atef Ebeid's formal approval of the Guidelines, which is required before most public spinning and weaving companies will feel comfortable and authorized to explore leasing and management contracts.* This should be possible, given the participation of key advisors to Minister Atef Ebeid in the workshops. Nevertheless, it is a final step that may take some time to achieve, particularly if the Minister prefers to submit the *Guidelines* to the Privatization Committee for review and approval.⁴⁰

Accomplishment

Benchmark partially accomplished. Guidelines for entering into leasing and management contracts have been drafted and discussed, but they have not been published by the GOE as formal guidelines. Mr. Mahmoud Salem has reviewed the *Guidelines* on behalf of MPE and expects to submit them to HE the Minister shortly. If the Minister approves the *Guidelines*, Mr. Salem expects to issue a circular to all holding companies to implement the new policy. If these last steps had been completed before June 30, the benchmark would have been accomplished. Mr. Salem also expects that if the Minister approves the guidelines, MPE will print them under its own cover.

Policy Benchmark

B7. Privatization of Agricultural Affiliated Companies

The Agricultural Development Holding Company will privatize at least three agricultural affiliated companies by June 30, 1999.

Verification Indicator(s)

B7.1 The privatization of at least three agricultural affiliated companies through one of these accepted forms of privatization — management contract, leasehold, share sales (over 50% of stocks purchased by the private sector), management buy -in/out, employee buy -in/out or anchor investor sales.

Method

MVE contacted the Holding Company for Agricultural Development. MVE also contacted the RDI team to follow up the privatization process.

Analysis and findings

The Holding Company for Agricultural Development sold 49.2% of El Wady Company for Agricultural Crops Export shares to The Egyptian Saudi Company for Mills and Food Industries (Egyptian anchor investor company) on October 25, 1998. The Holding Company sold 1,968,250 shares for LE 63,476,062, or LE 32.25 per share. It also sold 27% of the shares to the company's Workers' Joint Stock Union on October 31, 1998. 1,080,000 shares were sold for LE 27,892,400, or LE 25.80 per share. These two transactions resulted in the transfer of 76.2 percent of the shares, valued at LE 91,368,954, to the private sector (copies of the two contracts are in the annex).⁴¹

On March 1, 1999 the Holding Company for Agricultural Development sold 95% of its shares in San El Haggag for Agriculture Company to the Workers' Joint Stock Union. 1,196,050 shares were sold for LE 18 million, or LE 15 per share. A copy of the contract is in the annex.

According to the sales contract that was concluded on March 14, 1999, the Holding Company for Agricultural Development sold 100% of the shares of El Nobaria Company for Seed

Production (NOBSEED) to The Egyptian Saudi Company for Industrial & Land Investment (Egyptian Company) and The International Saudi Company for Trade and Marketing Ltd. (Saudi Company). The Holding Company sold 3.5 million shares for LE 103.250 million. See a copy of the contract in the annex.

The three purchasing companies are private companies. The Egyptian companies are organized under Law 159. Their ownership is by private individuals and not by any public or quasi-public entity. This was stated by the RDI team and it was confirmed by the Holding Company for Agricultural Development.

Accomplishment

Benchmark accomplished

3. AGRICULTURAL LAND AND WATER RESOURCE INVESTMENTS, UTILIZATION AND SUSTAINABILITY

Policy Benchmark

C1. Nile Water Flow Measurement

GOE (MPWWR) will implement policies and procedures to shift from distributing Nile River water based on water levels to distributing water based on water volumes using the Main System Management Telemetry System at main canal intakes, barrages on the Nile River and division points between Directorates for enhanced irrigation operations and decision making.

Verification Indicator(s)

C1.1 Calibrate 53 regulators located 1) on the River Nile, 2) at intakes to main canals, and 3) at points dividing Directorates where telemetry exists. Enter the calibration relationships into the telemetry system software so that volumetric flow measurements are achieved at these locations.

C1.2 Approve a policy that water management will be based on volumetric flow and that telemetry data will be used for water management decisions at points where

Method

The MVE unit participated in the APRP Water Policy Program Tranche III Benchmarks Final Workshop, during which this benchmark was discussed before the program's steering committee. The MVE Chief of Party, Dr. Gary Ender, visited telemetry sites (both meteor burst and VDCS) and the directorate (sub-master) and master telemetry computing headquarters at Qanater for the purpose of verification. The staff at these locations displayed and printed out the current data on level and flow at various sites.

Analysis and findings

Telemetry equipment was installed under previous project activities, but was not being used for water management purposes. The objective of the work under this benchmark was to begin using the information for better water management. To improve water management, flows rather than water levels should be used. As a result of the activities under this benchmark, the data management system now incorporates technical relationships between levels and flows that are specific to each measurement location. This permits conversion of the level measurements to flows. All these data are available to directorate engineers and are also kept in a master database at the master station in Qanater. A replica of the Qanater station is maintained in Imbaba at Ministry headquarters.

Under the benchmark activity, level-flow relationships were calibrated at 73 locations on the Nile, at intakes to main canals, and at points dividing directorates. The revised relationships were entered into the telemetry system software to determine volumetric flow from water level measurements at these locations.

The system makes use of two data transmission technologies: meteor burst (about 200 sites) and VDCS (Voice Data Communication System, about 600 sites). Each uses a radio to transmit the data; the meteor burst actually bounces the radio signal off ionized particle trails of meteors passing through the

Earth's atmosphere. Under each system the remote sites include a level measurement device and a radio transmitter. The remote sites transmit their measurements either directly or indirectly to the sub-master stations at the directorate level. This is where the water management decisions will be made, based on the data received. The directorate engineer thus has access to data from all remote sites in his area of responsibility regardless of the technology used to transmit them.

The telemetry project also set up a training and testing center. Equipment or components that are repaired are tested here by staff before being returned to service. Staff can also become familiarized with field equipment in this center.

The meteor burst sites are powered by a solar cell and battery. Like all mechanical or electrical systems, this system requires maintenance to continue operating properly. The solar panel at the site visited was partially obscured by dirt. When the accumulation of dirt becomes too high, there will not be sufficient current generated to keep the battery charged and the transmitter operating. For this reason, the data transmitted include the battery voltage, as an indicator of when maintenance or replacement is necessary (a copy of a sample report is attached in the annex).

One of the advantages of this computerized system is the rapid organization of the large volume of data for management. Data from the VDCS system flow continuously to sub-master stations; from the meteor burst they arrive every two hours (but the system permits even more frequent data transmission). For each water control location, the upstream and downstream water level, flow, cumulative volume, and other variables are reported on the computer screen and in printouts (a copy of a sample report is attached in the annex). The directorate engineers also compare the telemetry measurements with those made by the gatekeepers manually on "marble" gauges (meter sticks mounted on the canal walls) to ensure that measurements are correct.

Because of the clear benefits of this system, a policy statement that water management will be based on volumetric flow and that telemetry data will be used for water management decisions at points where telemetry stations exist has been incorporated into Ministerial Decree 139/1999, to which HE the Minister has given his approval. A copy of the decree is attached in the annex.

An additional benefit of the system is to reduce or eliminate inter-directorate disputes over upstream water released to downstream directorates. The telemetry data are an independently verified source of data for this purpose.

Accomplishment

Benchmark accomplished

Policy Benchmark

C2. Groundwater

The GOE (MPWWR) will adopt policies and procedures for reducing water loss and land degradation due to improper operation and management of free-flowing groundwater in the reclaimed areas of the Western Desert.

Verification Indicator(s)

C2.1 MPWWR will approve a policy package for free flowing groundwater in reclaimed areas.

C2.2 Initiate the formation of a groundwater user association in a selected reclaimed area in the Western Desert.

Method

The MVE unit's COP participated in the APRP Water Policy Program Tranche III Benchmarks Final Workshop, during which this benchmark was discussed before the program's steering committee. Dr. Morsy Aly Fawzy of the MVE unit conducted a field trip to El Farafra in order to verify the benchmark, participate in the ceremony of distributing the certificates, and investigate the process of the establishment of the Water User Union (WUU).

Analysis and findings

A focus group workshop involving local officials, stakeholders and private water users was held in El Farafra Oasis in May, 1999. West Qasr El Farafra was selected as a pilot area for study and development of a policy model. Eng. Abdel Salam Nagati, MPWWR General Director of the New Valley Irrigation Directorate, is coordinating the work of a field measurement team charged with data collection in the pilot area.

The main event during the field trip was the establishment of the WUU in three wells in El Farafra and the election of the board of directors of these unions. The MVE representative attended the ceremony on May 9 and participated in the interviews conducted by the camera team, which was arranged by the GreenCOM Project to expand the awareness of the WUU. It should be mentioned that these are the first ever WUUs formed in the Western Desert in accordance with Law 213.

Dr. Morsy and the visiting team went to three wells, numbered 7, 16, and 18. Well number 7 is supposed to serve 220 feddans with a capacity of 110,000 cubic meters. However, it currently serves 122 feddans managed by 22 holders, out of whom 18 farmers participated in the WUU established for this well. At well number 16, which was established to irrigate 350 feddans and currently serving 62 feddans managed by only 8 land holders, all of the farmers served by this well participated in the established WUU. Well number 18 has a larger

capacity than the other two, 20,000 cubic meters, and it irrigates 180 feddans owned by 36 farmers, who all participated in the new WUU.

The ceremony for giving certificates to the WUU beneficiaries was headed by the president of Farafra town, who appreciated the effort by the EPIQ team and the staff of MPWWR. He mentioned that they started this activity in the area of Gharb El Qasr. Dr. Fredericks in his speech concentrated on the main objectives of the Agricultural Policy Reform Program (APRP) and the role of the private sector in achieving these goals. He referred to the importance of rationalizing the use of water resources and the role of farmers through the WUU in carrying out the responsibility of managing and finding out solutions to their irrigation problems

The EPIQ team has produced a detailed report (Water Policy Program Report Number 16, available also in the MVE Unit), which presents an improved policy framework to ensure appropriate management of the Nubia Sandstone Aquifer and its free-flowing wells. Implementation of this policy is expected to lead to the following:

- Better utilization, management and conservation of groundwater resources in the Western Desert development areas where free-flowing groundwater conditions prevail, which, in turn, will lead to water savings, improved agricultural conditions in 75,000 feddans of old and newly reclaimed area, and more sustainable agriculture production.
- Saving 0.3 bcm of water per year.
- Mitigation of adverse environmental effects such as waterlogging, drainage problems, and soil salinization, which have resulted in serious negative impacts on agricultural production in the oases.
- Sustaining the economic life of the Nubia Sandstone Aquifer system.
- Transfer of responsibility for well drilling, operation, and maintenance and groundwater management from the MPWWR to local stakeholder management organizations, with continuing control and technical support from the Ministry.

Based on the pilot activity, the following policies are recommended:

- Free-flowing well discharge will be adjusted monthly to match crop irrigation requirements within the command area of each particular well, with the maximum discharge not exceeding the well's design future pumping rate.
- For free-flowing wells, night-time well flow will be stored on the land surface, either in the existing canals or new storage facilities, and daytime well flow will be controlled.
- The MPWWR will establish a program of continuous groundwater monitoring for all wells (private and public).
- Operating criteria will be defined for transition from free-flowing to pumped conditions of the wells.
- The MPWWR will continue the program for establishment of water user organizations in accordance with Law 213.

- No growth of unofficial irrigation will be allowed.
- A working group will be established with membership from MPWWR, MALR, and MHNC, chaired by the representative of MPWWR, to provide continuing review of issues/conditions and policies for managing the groundwater resources in the Western Desert.

The report also recommends detailed procedures to implement the proposed policies.

The Minister approved the policy package on June 28, 1999. The policies are specified in chapter five of Water Policy Program Report Number 16. MVE has a copy of this report.

Accomplishment

Benchmark accomplished

Policy Benchmark

C3. Branch Canal Water User Organizations

The GOE (MPWWR) will decree a policy and initiate an action program for formation of water user organizations at the distributary and branch canal levels.

Verification Indicator(s)

C3.1 A ministerial decree allowing the formation of water user organizations above the mesqa level.

C3.2 Process Documentation reports that organizations were formed on two branch canals (one in an IIP and one in a non-IIP community).

C3.3 A cost-sharing plan prepared for two branch canals in consultation with the stakeholders.

Method

The MVE Unit participated in the APRP Water Policy Program Tranche III Benchmarks Final Workshop, during which this benchmark was discussed before the program's steering committee. Dr. Morsy of the MVE Unit attended a meeting of a branch water user association (WUA) in cooperation with MPWWR staff to formulate the framework and implementation plan of its activities.

Analysis and findings

Recommendations arising from the Tranche II benchmark on WUAs in non-IIP areas included 1) establish water user organizations at the branch canal level, allowing for eventual expansion to the district level, 2) review current legal ordinances and institutional regulations related to farmer participation in irrigation management, 3) make necessary amendments to

the existing laws, and 4) strengthen the formal institutionalization of the Irrigation Advisory Service in the MPWWR.

In order to achieve these recommendations, MPWWR established a team of MPWWR, MALR and EPIQ officials to be an advisory body to MPWWR in matters related to expanding farmer participation in water management. It selected two branch canals, one each in an IIP and a non-IIP area, for formation of BCWUAs.

Implementation included:

- Issuance of a ministerial decree allowing the formation of BCWUAs at four selected locations (MD 28/1999, attached in annex)
- MPWWR Action Team orientation and training
- Training for field teams (staff from IAS, IIP and Irrigation Department) in participatory rural appraisal (PRA) techniques, communications and BCWUA organizing elements
- Formulation of a common work plan and strategy for BCWUAs
- Development of policy objectives for BCWUAs, establishment of an Egyptian chapter in the International Network on Participatory Irrigation Management (INPIM)
- Development of a phased process for organizing BCWUAs and establishing indicative parameters for BCWUA organizational structure and functions

Over 9,000 farmers participated in the process of branch canal water user association (BCWUA) formation. Central-level, general directorate and directorate staff of the IIP, IAS, and Irrigation Department took part, as well as extension workers, local leaders, and members of the People's Assembly.

A Water Policy Program report (number 17) summarizes the work undertaken in forming BCWUAs in the four selected locations. The MVE Unit is in possession of a copy of this report. For each BCWUA there is a section on basic background data, and information regarding agricultural and cropping practices, water delivery, and description of the physical system. A list of the executive councils for each BCWUA is given, along with the elected officers. In each case the District Engineer acts as an ex-officio member of the BCWUA. Detailed information is provided for Qemri, Bahr el Dahram and Balaqtar branch canals.

Cost-sharing plans were developed for two of the locations, i.e. Qemri and Bahr el Darham branch canals. There are several basic elements of each cost-sharing plan, among them:

- Operations and maintenance (O&M) work is undertaken in a negotiated process by the BCWUA with additional involvement of the GOE
- The BCWUA sets an achievable target for O&M performance, for which it would be reimbursed for most costs through a contracting arrangement with the GOE
- A 5-year calculation is used as the base to determine an annual O&M cost ceiling
- Cost-sharing plans are developed in 3-year incremental phases, incorporating BCWUA institutional performance targets

- Issuance of a Memorandum of Understanding (MOU) between the BCWUA and GOE on O&M
- IAS conducts training workshops for BCWUA members to support the work in the MOU, and
- A plan for phasing in a mesqa improvement package and using the BCWUA to form mesqa-level WUAs.

An MVE representative attended the meeting of the Water User Association (WUA) for Qemri canal, which was established on April 6, 1999. This WUA's board of directors, which represents farmers in this area, was recently elected by those farmers. The board of directors of this WUA conducted its first meeting on May 5. The main purpose of this first meeting was to identify the main problems and obstacles that face the WUA. They also discussed a framework of cooperation with MPWWR staff. One of the main issues discussed in this meeting was how to find financial resources for the WUA. The main conclusion was that many of the farmers in the project area are going to wait and see the performance of the WUA first before they will start participating and financing the WUA fund.

The participants in this meeting split into two working groups, one for operation and the other for maintenance. The main findings of this meeting were that both partners (WUA and MPWWR) were able to identify the main items of both operating and maintenance and agreed upon those items after a long discussion. They also discussed the mechanism of implementing these items and the role of each party in this process.

It was clear from the meeting that the main purpose of the MPWWR staff is to rationalize the water use and to save water. Meanwhile, farmers for the first time are practicing water management on their land. It should be mentioned that farmers were very enthusiastic to take part and extend the concept to other areas. For instance, they discussed the idea of helping the Government in leveling farmers' land through collecting the needed area together. This would reduce the marginal cost of leveling and improve water management.

The MVE unit recognizes the hard work and effort of the EPIQ team in this benchmark.

Accomplishment

Benchmark exceeded, for the following reasons:

- The benchmark called for setting up two BCWUAs; three were formed, and a fourth is near completion.
- MPWWR, with technical assistance from the Netherlands, is starting a new 4-year nation-wide project to set up WUAs at the branch canal level. This project will use the three BCWUAs from the benchmark activities as part of its pilot program.
- Over 9,000 farmers were involved in the BWUA process, many more than was expected.

Policy Benchmark

C4. Irrigation Advisory and Support Service

The GOE (MPWWR) will institutionalize an Irrigation Advisory and Support Service in the MPWWR.

Verification Indicator(s)

C4.1 Ministerial decree establishing the Irrigation Advisory and Support Services Central Directorate under the MPWWR.

C4.2 Submittal of necessary documents to the Central Authority for Organization and Management to establish an Irrigation Advisory and Support Services Central Directorate under the MPWWR.

Method

The MVE unit participated in the APRP Water Policy Program Tranche III Benchmarks Final Workshop, during which this benchmark was discussed before the program's steering committee. The results of the work under this benchmark are presented in Water Policy Program Report Number 18; the MVE Unit is in possession of a copy of this report.

Analysis and findings

Under this benchmark MPWWR is transforming the Irrigation Advisory Service (IAS) from an extension arm of the Irrigation Improvement Project (IIP) to a permanent unit under the Irrigation Department. The newly configured IAS will have a fully -staffed central directorate located within the Ministry, general directorates in upper and lower Egypt, and directorates at six locations corresponding with existing irrigation command areas.

MPWWR made an initial IAS resource needs identification, focusing on present and future staffing structure and additional manpower needs, annual recurring operating cost estimates, procurement list for additional equipment and supplies, and additional transport vehicles needed. Essential building space estimates are also included. A training needs assessment was undertaken during this period: training needs have been identified for IAS engineers, IAS field agents, and for Mesqa and Branch Canal Water User Association (WUA) members.

The detailed Terms of Reference for the IAS comprises the documents required for submission to the GOE Central Authority on Organization and Management. (The documents in the original Arabic are appended as Appendix B of Report Number 18).

The basic roles and responsibilities of the permanent IAS are, among others:

- Implement and supervise the establishment of 1) WUAs on improved mesqas and in tile drainage system of the old lands; 2) water user unions (WUUs) in new lands and

- development of their mesqas; and 3) supervise the turnover of improved mesqas and the tile drainage network to WUAs
- Implement and supervise the establishment of WUAs at the branch canal level (in both all categories of land)
- Conduct continuous orientation and on-the-job training for all levels of IAS engineers, and technicians, in line with work programs and objectives. Organize and conduct training for members of WUAs, WUUs, and BCWUAs
- Supervise the execution and monitoring of the IIP cost recovery program, the BCWUA branch canal O&M cost-sharing program, and other related activities in coordination with the Revolving Fund Committee
- Assist in establishing special command area committees for environmental issues
- Coordinate provision of technical assistance to mesqa -level and branch canal WUAs in the old lands and for the WUUs in the new lands, with regard to mesqa irrigation scheduling, in improved as well as unimproved areas, along the branch canals
- Assume a lead role in linking WUAs, WUUs, and BCWUAs with public and private agencies, including NGOs, focused on rural infrastructure and socioeconomic change initiatives

Scopes of work for IAS technical and operational units have been completed. Job descriptions have been prepared for all key positions in the new IAS. The job descriptions for key positions in the new IAS have been refined and enhanced to match the anticipated workload for the IAS, and in light of the above-mentioned items in the IAS terms of reference. The IAS is being institutionalized in MPWWR through ministerial decree 143/1999 (copy attached in annex) and submission of the required documents to the Central Authority for Organization and Management (available in Appendix 2 of report 18). A copy of the letter of submission is also attached in the annex.

Accomplishment

Benchmark accomplished

Policy Benchmark

C5. Sugar Cane Water Use Policies

GOE (MPWWR and MALR jointly) will designate two areas of private commercial sugar cane growers and promote improved water management efficiency in Upper Egypt.

Verification Indicator(s)

C5.1 Improved irrigation technologies installed, including laser leveling and gated pipe delivery systems; water application monitoring program established; and training provided to farmers in the use of improved irrigation methods in two pilot sugar cane areas in Upper Egypt.

Method

Dr. Morsy Aly Fawzy of the MVE Unit conducted two field trips to the project locations in Luxor and Qena. The MVE unit also participated in the APRP Water Policy Program Tranche III Benchmarks Final Workshop, during which this benchmark was discussed before the program's steering committee.

Analysis and findings

The Sugar Cane Working Group (SCWG) is composed of members from the Ministry of Agriculture and Land Reclamation (MALR), the Ministry of Public Works and Water Resources (MPWWR), the Sugar Cane Council, the Sugar Company, the Agricultural Policy Reform Project/Water Policy Reform Program. MALR is represented by the Sugar Crops Research Institute, the Mechanized Agriculture Research Institute, and the Undersecretary of Agricultural Affairs.

The SCWG identified the adoption of improved irrigation techniques by sugarcane producers as a method of obtaining significant water savings in Upper Egypt. The working group has identified 14 sites for field experiments in Luxor and Qena governorates for pilot projects on 838 feddans.

Pilot projects involving the installation of gated-pipe irrigation systems were developed by the SCWG. These pilot projects have included training of extension personnel and a program for training farmers. Local water engineers have been introduced to water measurement and monitoring requirements and trained to collect and report the appropriate data. An information/awareness video was developed to be used for further expansion of the project.

The gated-pipe systems have been installed on farms in the Luxor and Qena Governorates totaling more than 450 feddans. Water measurement and monitoring devices, including weirs and on-farm pump totalizing meters, have been installed. Productivity gains for each farmer will be measured and monitored by the sugar companies, in part to involve the farmers in sharing the cost of the installation of the systems.

Dr. Morsy made two visits to the project locations. In the first field trip to the project area, the visiting team found that the working group had proposed a pilot area of 40 feddans in each *hode*. Farmers in the project area were convinced of the benefits of the project in terms of improving water management in their fields and increasing their yield per feddan by about 30%. Farmers were convinced for the following reasons: (i) lower yield in the area covered with water, (ii) high costs when using traditional irrigation technique, and (iii) applying the new system will allow farmers to save two kerats in each feddan (about 8% of the sugarcane cultivated area).

In some locations farmers got loans (without interest, from the SCC) and bought the irrigation pump. Farmers are now in the process of forming water user associations (WUAs) to be able to manage irrigation water in their fields during this sugarcane season and in the future.

The private sector is playing a significant role in carrying out the major responsibility in establishing, managing and monitoring this project. The establishment of the new irrigation system of sugarcane in all of the project locations is conducted by private companies. Farmers had some complaints about the rate of implementation of the new system by the private companies, which was slower than expected in construction, pre -testing the new system, and its application.

The team conducted field visits to nine locations in the project area as follows:

District	Location	Area(feddans)
Luxor	El-Tod	33
	El-Fabrica	37
	El-Wazan	43
	El-Aashorei	20
	El-Dayer Ali Basha	20
	El-Saudi	38
	Berkit El-daira	27
	El-Shahori	20
	Total	238
Qena	El-Makhadma	40

The main findings of the first field trip are as follows:

- All of the selected locations in the project area are served with a laser leveling service. The required leveling slope for this project is 10 cm for each 100 m. Leaving this slope is a vital part of the irrigation system.
- Private companies are working on the installation of the gated-pipe delivery system. This system was to be fully operational by May 10. There are two reasons for this specific date: (i) this was the deadline for construction companies to finish their work and avoid being penalized, and (ii) the sugar factory decided to stop receiving sugarcane from farmers after May 9.
- The project management conducted training sessions for both farmers (more than 500) and trainers of extension agents (about 65). The main objective of the training component is to provide farmers with adequate information about the use of the improved irrigation method in the pilot area. The impact of the training was very clear when the team discussed with farmers in the project area several issues about the project. Farmers not in this year's pilot activity told the team that they plan to join the project next year. In addition, the project management, in cooperation with the APRP/RDI Unit, intends to conduct eight workshops outside the project area to increase the awareness of project benefits in order to expand the project area.

- The water application monitoring program has been developed by the key participants in this project. The team discussed with the project manager (Dr. Abd El Wahab Alaam) the main items in the project monitoring plan and the data available for the project.

MVE conducted a second field trip to the project locations. The main purpose of this field trip was to finalize the verification of the benchmark. The first location to be visited was *hode* El Ashee, which includes eight land holders. The team found that the installation of the whole system had been completed. The MVE representative conducted interviews with some farmers beneficiaries in this location. They expressed directly that they recognized the benefits of the project as follows: (i) they save about three kerats in each feddan, (ii) they save irrigation time, about half of the time they used to need, which will be reflected in saving labor and other costs, and (iii) they save time in cultivation (e.g, hoeing and weeding). Farmers in the project area also showed an interest in, and understanding of, how to deal with the system through changing the pipes' location according to the needs of the field to be irrigated.

In an interview Mr. Ali El-Edessy, a Shoura Council member, commended the work and encouraged the sugarcane working group to expand its activities quickly. He noted the many benefits of the improved irrigation system, and suggested that the Government implement the program on a much wider scale. In addition, he suggested trying the system on other crops, such as banana.

The team visited other locations in the project area in Luxor (beside *hode* El Ashee) including El Tood, El Odesat Bahery, *Hode* El Daira Ali Basha, and El Shaghab and Qumera in Qena. Work at all of the locations was completed, and farmers' responses were very much the same. Some general remarks on this visit can be summarized as follows:

- The GOE continues to show full commitment and responsibility for helping farmers to increase their productivity and income, and to save more water. This is shown via the participation of a large number of specialized government employees in different fields. The response of farmers in the project area toward the government attention is that this is their first time to see all of those senior staff taking care of the installation of equipment and ensuring the farmers' understanding of this new technique.
- The cooperation and coordination between the staff in the MALR and MPWWR continues, and is likely to lead to further improvements in the project area.
- The savings in water used in sugarcane irrigation are recognized by both farmers and technicians.
- The participation of the private sector in conducting, implementing, and managing this project is very obvious.

- The RDI workplan of conducting more seminars for both farmers and extension agents in new areas (outside the project area) is really appreciated as a way of increasing the rate of adoption of the project idea. The approach followed by the RDI unit includes grouping the new trainees in one of the project areas and using the trained farmers and extension agents as trainers in the new sessions. The discussion will pay special attention to the lessons learned during the last season.
- The pilot locations include various types of farm holdings, such as large-scale farmers and small farmers, near the main canal or away from it, different types of soil, and various cropping patterns in the neighborhood of the project area, which means that the sample represents all or most of the sugarcane farm types. This will help in getting a more representative technical and economical evaluation of the post-project impact.

Accomplishment

Benchmark exceeded. The following reasons support this determination:

- The benchmark refers to two areas of private sugarcane growers for the application of new system of irrigation, but the SCWG has exceeded that requirement by working in 14 locations in both Luxor and Qena.
- The GOE has strongly encouraged the private sector to participate in all of phases of establishing, managing, and operating the pilot project. This important dimension was not in the benchmark.
- The training included more than 500 farmers and 65 extension agents, and was very successful in conveying to farmers an understanding of the new technique. The rate of adoption in new areas is estimated at more than 100% of the current project area.
- The collaboration and coordination between various partners in this program, especially between the staff of MALR and MPWWR, continues, and is likely to lead to further and sustainable improvements in the project area.

Policy Benchmark

C6. Rice Water Use Policies

The GOE (MPWWR and MALR jointly) will adopt policies for the substitution of short duration rice varieties for long duration rice varieties among private commercial growers and for changing water scheduling to achieve optimal use of water for rice production.

Verification Indicator(s)

C6.1 Approval by the two Ministers (MPWWR and MALR) of a national policy package, including a timetable for adoption, provision of seeds, farmer training, and changes in water scheduling, for the substitution of short duration rice varieties for long duration rice varieties.

Method

Dr. Gary Ender, Chief of Party of the MVE Unit, visited some of the rice field sites and the rice research center in Sakha. He observed the short-season rice planted in demonstrations and by farmers along the selected canals in Kafr El Sheikh and Beheira governorates. He also observed the farmer training meetings conducted jointly by the MALR and MPWWR staff. The MVE unit also participated in the APRP Water Policy Program Tranche III Benchmarks Final Workshop, during which this benchmark was discussed before the program's steering committee.

Analysis and findings

MALR and MPWWR have shown excellent cooperation in undertaking this very important program. Their activities in 1999 included the following:

Joint activity:

- **Selection of demonstration and control canals (January)**

MALR activities:

- **Training of national rice and local village extension staff (February and March)**
- **Meetings with farmers (March)**
- **Seed distribution (March and April)**
- **Nursery establishment and transplanting (May and June)**
- **Continued extension activities during the growing season (April through October)**
- **Completion of education/awareness/training package**
- **Collection of production and economic data (October, 1999)**

MPWWR activities:

- **Training of district engineers and supervisory personnel in water measurement and monitoring (February through May)**
- **Canal maintenance**
- **Water rotation change (August)**
- **Data analysis (October through December)**

Farmers are happy with the new varieties. In fact, they have had several years to observe the properties of some of them. The farmers' complaint was usually only about the supply of water. This was felt to mean that they would all like to grow rice all of the time, which is not possible given the capacity of the canals and the water supply in Egypt.

Last year was the first demonstration of short-season varieties, in which the two ministries cooperated to arrange for farming in a block and showing water savings from changing the irrigation schedule. The demonstration covered 500 feddans in Sidi Gama. This year the demonstration program has been expanded to six governorates, with a total rice area of over 11,000 feddans and a total area including the control area of over 48,000 feddans, a truly impressive increase.

The previous irrigation cycle was 4 days on and 6 days off, although farmers might pump remaining water out of the canal on the fifth day. The new system will have 5 on and 10 off. In addition, rather than ending the irrigation cycle for rice on/about October 15, it is projected to stop this year in short-season rice growing areas on/about August 31.

Demonstrations follow the planting method of the farmers. Some are using direct seeding (especially in Daqahlia), although most practice transplanting. Most transplanting was complete in the areas visited. The demonstration plots showed rice densely planted at the correct spacing and in excellent health. Part of the extension program is to encourage farmers not to use chemicals unless they can see the reason to use them. Extension and research personnel circulate in the areas and assist with pest and disease scouting and diagnosis.

An additional benefit of the shorter irrigation schedule of the short-season rice program is to cotton farmers in neighboring fields, as it will be easier to pick cotton and there will be less chance of excessive water seeping to the cotton fields at harvest time when water is not needed.

A possible activity for the PAU of the MALR was suggested by one of those on the trip. It would entail following up on the farmers in the Sidi Gama area to see the success or issues there. This would give the unit a chance to learn many aspects of policy analysis with a real example of success for the Government.

The annex contains a copy of the letter from HE the Minister of Public Works and Water Resources approving the rice policy package. The ARC of MALR discussed the policy package in its meeting on June 28, 1999. This meeting was chaired by HE the Minister of Agriculture and Land Reclamation. The minutes of this meeting show clearly that the Minister is fully aware of the policy package and has approved extending the rice program to the entire country by the year 2000/2001. A copy of the relevant pages of the meeting minutes is in the annex.

Accomplishment

Benchmark accomplished

Policy Benchmark

C7. Intermediate Drainage Water Reuse

The GOE (MPWWR) will establish an intermediate drainage water reuse program for the Bahr Bagar Drain as a model for other areas.

Verification Indicator(s)

C7.1 Establishment of an intermediate drainage reuse program for *Bahr Bagar* Drain in at least one representative district to include preparation of an operations plan and tender documents for the pumps.

Method

Dr. Morsy Aly Fawzy of the MVE Unit conducted a field trip to Abu Hammad district to verify this benchmark. The MVE unit also participated in the APRP Water Policy Program Tranche III Benchmarks Final Workshop, during which this benchmark was discussed before the program's steering committee. The results of the work under this benchmark are presented in Water Policy Program Report Number 20; the MVE Unit is in possession of a copy of this report and its annexes.

Analysis and findings

One of the policy recommendations of the Water Policy Reform steering committee of the Ministry of Public Works and Water Resources at the Tranche II Concluding Workshop held in June, 1998 was to develop intermediate drainage reuse in the Delta.

The Bahr Bagar drain is a contaminated main drain. It starts from the northeastern border of Greater Cairo, extends 180 km to the north, and ends at Lake Manzala on the northeast edge of the Delta. In the south, the Qalubya and Belbeise drains, which feed into Bahr Bagar, receive a large amount of urban sewage from the East Bank of Cairo. This has made Bahr Bagar more an open sewer than an agricultural drain. In the north, Bahr Bagar collects a substantial drainage flow from the newly reclaimed lands along the Salam Canal. The drain water is very saline, and reuse of the drainage is not possible.

The middle Bahr Bagar basin is a typical agricultural area. Many branch drains show low salinity (500-600 ppm) and good water quality indicators, and there is no concentrated industrial wastewater source in the area. Unfortunately, however, the area's drain waters all fall into Bahr Bagar and consequently lose their reusability. An important water management strategy is to use these good drainage flows before they enter the polluted Bahr Bagar main drain.

Abu Hammad, an irrigation district in the middle Bahr Bagar basin, was selected as the pilot district for implementing this benchmark. Seven drain locations (plus two existing pump stations) were identified as the potential drainage pumping sites.

To determine the availability of drainage for intermediate reuse pumping, a drainage monitoring program was conducted in Abu Hammad from August 15, 1998 to May 15, 1999.

The monitoring included weekly measurements of drain flows, daily observations of drain water levels, and three-time measurements of selected water quality parameters at selected drain locations.

Estimated drainage generations in the two seasons were compared to the monitoring values for the analysis of unofficial drainage reuse. It was found that, for northern Abu Hammad, the unofficial reuse was 5-7% of the area's canal inflow. Intermediate drainage reuse is desired to provide the proper pump capacity and operation schedule to replace a major part of this unofficial reuse.

The EPIQ drainage reuse task group considered various factors in designing a drainage reuse program, including:

- The need for drain weirs on small drains
- The operation of intermediate reuse stations in conjunction with canal rotations
- Seasonal pumping schedules
- Pump capacity and unit selection
- The capacity of each branch canal to accommodate the pumped drainage

The task group prepared a detailed engineering design (including a project bidding document, Annex 1 of Report Number 20) of the seven potential pump stations in Abu Hammad. The operational plan is contained in Chapter 4 of Report Number 20. The achievable reuse in Abu Hammad is equivalent to 5% of the area's canal inflow. This figure can be a general estimate of intermediate drainage reuse. The rate is small compared to the main drain reuse, but is an additional part of reuse that the main drain reuse cannot harvest due to pollution.

In the winter season, drainage pumping will be used to substitute for canal supplies. This reduction will result in smaller production of drainage. Analysis showed that a 10% reduction in canal supplies is acceptable, given the selected pump facilities.

Economic viability of intermediate reuse is particularly sensitive to the size of the area served and the value input to the saved water. It appears that for canals with areas of less than 1,000 feddans, alternatives to fixed intermediate reuse should be considered. The farmer financial analysis suggested that farmers were generally unable to pay the full operation and maintenance (O&M) costs, and the government should be responsible for the major part of the capital and O&M costs of the intermediate reuse program. Only those farmers whose summer production is increased by using drainage water would be possibly willing to share part of the pump station O&M costs.

The MVE unit conducted an interview with Eng. Hussein Elwan, who mentioned that Egypt loses about 12 billion cubic meters annually, of which some of it (about 8 billion cubic meters) is needed to keep the balance of the salinity for the Delta. If this pilot project were generalized at the national level, this would mean that Egypt would be able to reuse 4 billion cubic meters of wasted water. The main idea of the pilot project is to reuse water of the Azazy

drain in irrigating cultivated land before it goes to the polluted drain of Bahr El Bagar. This pilot project is located on Aum El Hagar canal (about 11 km), which is a branch of the main canal of El Saidia in Abu Hammad district.

During the verification field trip the MVE unit found out that the pilot project consists of three water-raising pumps located in a pump station on the Azazy drain which ends up at the Bahr Bagar main drain. The capacity of each of the three pumps is 0.3 m³ per second, and they can work for about 12 hours daily. The capacity of the pump station is to raise about 40% of the drain water. It should be mentioned that the salinity of water in this drainage is about 500 parts/million, which is acceptable for irrigation water. Mixing the reused water with the fresh water takes place about 5 km far from the head of the canal. The holding area which is served by this station is about 7,000 feddans, most of which is cultivated in rice.

The MVE unit interviewed some of the farmers in the project area. They expressed their satisfaction with the project idea. From the farmers' point of view, the main advantages of this pilot project are that (i) they will not need irrigation rotations (*menaoba*) because of the availability of water, and (ii) farmers on the tail of the branch will be able to get more water than before, which will be reflected in increased productivity.

Accomplishment

Benchmark accomplished. The program has been established, and the plan and tender documents are contained in the team's report.

Policy Benchmark

C8. Law 48 on Water Quality

The GOE (MPWWR) will revise Law 48 of 1982 governing water quality management to more effectively control discharge of wastes and wastewater into the Nile and its waterways.

Verification Indicator(s)

C8.1 A draft revision of Law 48 of 1982 and its by-laws to be presented to the Minister.

Method

The MVE unit participated in the APRP Water Policy Program Tranche III Benchmarks Final Workshop, during which this benchmark was discussed before the program's steering committee.

Analysis and findings

The essence of this benchmark is technical collaboration among various GOE experts to make recommendations to update Law 48. The results of this work are presented in Water Policy Program report number 21; the MVE Unit is in possession of a copy of this report.

The Inter-Ministerial Committee on Revising Law 48 was created under Ministerial Decree No. 88 of 1998 and chaired by Eng. Yehia AbdelAziz, Chairman of the Irrigation Department, MPWWR. Report number 21, which accomplishes the benchmark, focuses on ways to improve compliance with water pollution requirements and standards through: 1) changes to Law 48/1982 and its Executive Regulations, 2) revisions to Water Quality Standards (WQS), and 3) activities to promote cooperation among ministries with related responsibilities. HE the Minister chaired the benchmark workshop at which the team's report was presented. Thus the report was submitted to him and discussed before him and with him at this time.

The group began its activities with a review of previous studies of water pollution problems in Egypt. It conducted a round of informal interviews with representatives of the ministries participating on the Inter-Ministerial Committee. It also reviewed almost 100 specific proposals that had been generated by the committee. Drawing on published literature and its own experiences, the team investigated how other developing nations are dealing with similar compliance problems.

The group investigated the historical context of this issue and how other countries are dealing with compliance problems. It found that many environmental programs around the world are finding compliance agreements useful tools with which to set priorities and deal with serious non-compliance problems. Typically, these documents are site-specific agreements which include feasible schedules for installing and operating pollution treatment units as steps toward full compliance. They also include requirements for periodic reporting of progress. These agreements vary from formal, court-supervised, enforceable contracts to informal agreements between governments and the owners of the impacted facilities. The team's report recommends that MPWWR adopt a Compliance Action Plan (CAP) system that is an enforceable contract and which is implemented in a phased manner. The most essential elements of such agreements are that compliance is defined as meeting all scheduled improvements and that public sanctions are imposed for serious instances of bad faith performance.

The study team also adopted a two-tiered strategy including both short-term actions to initiate compliance activities as quickly as possible, and long-term proposals for more fundamental reforms of Law 48, its Executive Regulations, and the existing WQS. The initial activities should be implemented over a sufficient time period to provide a better understanding of the problem and feasible abatement actions for classes of facilities, before the more fundamental reforms are developed in detail. Proposing major reforms in the law or the standards on the basis of the information available at this time would inhibit progress in the short-run and probably create long delays as the new proposals were subjected to intense debate. Nonetheless, in view of the enormity of the non-compliance problem, this is not a situation that can be resolved in a few years.

The report recommends, among other things, that MPWWR:

- **Adopt the CAP procedures to deal with non-compliance problems among significant industrial and municipal polluters. The essential elements of the CAP program include:**
 - **MPWWR initiates the process by notifying the facility of their apparent non-compliance with existing WQS**
 - **The facility has a fixed time to demonstrate full compliance or prepare a CAP including, where appropriate, the results of a pollution prevention audit and a schedule for the installation and operation of treatment improvements, and**
 - **After dialogue with the applicant and whatever modifications may be appropriate, MPWWR approves the CAP, which is then included in the facilities pollution discharge license.**
- **Initiate Very Narrow Modifications of Law 48⁴²:**
 - **Authorize the CAP process and create a deposit system as an incentive for the attainment of scheduled improvements and so that the new procedures will be clear to all stakeholders**
 - **Authorize MHP to subcontract with other qualified government laboratories to conduct compliance monitoring for MPWWR, and**
 - **Clarify that the licensee is responsible for selecting technologies and attaining all standards**
- **Amend the executive regulations related to Law 48⁴³ to:**
 - **Establish procedures to implement the CAP process (see new article 28 in chapter 6 and Appendix B)**
 - **Give MHP the authority to subcontract with other competent government laboratories**
 - **Raise fees to reflect some of the inflation that has occurred since enactment in 1983**
 - **Clarify that provisions of Law 4/1994 for environmental impact assessments (EIAs) and monitoring, record keeping, and periodic reporting will be included in future licenses issued by MPWWR**
- **Consider the following fundamental reforms:**
 - **A new system of facility class- and technology-based discharge limits**
 - **A new set of ambient WQS for in-stream conditions necessary to support designated uses of the receiving bodies**
 - **Amending Law 48 to allow initial discharge limits for various classes of facilities.**
 - **Developing a national pollution plan to guide future governmental investments in municipal wastewater treatment facilities.**
 - **Creating a new range of sanctions for serious and persistent violations of discharge requirements**
 - **Investigating the creation of a separate division within the State Council to be devoted to environmental compliance activities.**

Accomplishment

Benchmark accomplished

D. AGRICULTURAL SECTOR SUPPORT SERVICES

Policy Benchmark

D1. Contract Farming

The GOE will adopt and implement a policy for contract farming to protect both farmers and contracting firms.

Verification Indicator(s)

D1.1 GOE/MALR decree or written policy document to define the contents of a model contract to set standards for contract farming.

D1.2 Evidence of public awareness based on survey of relevant contract farmers and contracting firms.

Method

The MVE Unit has monitored the APRP effort. MVE has reviewed the materials collected by those working on this activity.

Analysis and findings

RDI's consultant lawyer, Mr. Safwat, has drafted several model contracts, which are currently being translated. An expert in agricultural contracts, Mr. Safwat has incorporated input from actual contracts and from interviews with prominent firms and individuals currently involved in contract farming. Dr. Randall Parks and the PMU staff interviewed numerous parties involved in contract farming, including farmers, exporters and producers. The parties provided APRP with agreements currently in use in different contract farming arrangements.

Once the draft contracts are finalized by Dr. Safwat, they will be reviewed by focus groups and selected individuals for further amendments and improvements. Dr. Parks has drafted a policy memo that has been reviewed by the APRP Coordinator and shared with the MVE Unit. The policy encourages the proper use of contract farming, and endorses the model contracts. Upon completion of the model contracts, the APRP Director will present the draft policy and model contracts for HE the Minister to approve.

Accomplishment

Benchmark partially accomplished

Policy Benchmark

D2. Commodity Export Associations and Organization

The GOE (MoTS) will revise its policy to work with private trade and industry associations in addition to private firms. This will channel GOE support and information to private trade or commodity associations and organizations to promote Egyptian exports.

Verification Indicator(s)

D2.1 A clear policy statement in the form of a decree from MoTS defining its role in supporting the export promotion efforts of private business associations, offering public sector support and coordinating its activities with those of the private associations.

D2.2 Evidence of public awareness of the policy based on survey of relevant groups.

Method

MVE reviewed documentation provided by MTS and attended a workshop led by MTS in June 1999. This workshop constituted a public announcement of the policy shift at MTS regarding working with private associations.

Analysis and findings

Dr. Hamdi Salem initiated work on this benchmark by writing a letter to H. E. Dr. Ahmed Goweli, Minister of Trade and Supply, regarding MTS's need to work with private associations and commodity councils to promote exports, in addition to working with private firms. Minister Goweli approved the letter and policy change (see the annex).

EEPC then prepared a detailed memorandum to the Minister laying out a work program to support the efforts of six MTS agencies to generate better information about market opportunities in 15 target countries of COMESA⁴⁴, North America (U.S. and Canada), and the CIS.⁴⁵ This memorandum also laid out a plan to stimulate increased exports of a wide range of products, including many agriculturally derived ones. The memorandum includes a budget for using APRP tranche funds in the sum of LE 25.5 million.⁴⁶ Minister Goweli approved the memorandum and budget and instructed EEPC to take the next steps (see cover page to the memorandum in annex).

EEPC's implementation program of export development in the target countries includes:

- Egypt's supply capabilities to produce exportable products
- trade missions to foreign countries
- preparation of high-quality promotional brochures and CDs featuring Egyptian companies in selected industries that can produce export-grade products
- reproduction and (subsidized) distribution of a brochure to Egyptian exporters on export marketing laws, regulations, rules and processes
- limited participation in regional international conferences
- procurement of market information through subscriptions

In addition to EEPC, the overseas commercial representation offices will receive financial support for conducting studies on the 15 target markets, using local marketers to establish business contacts and consummate export deals, subscriptions to international business periodicals, and participation in conferences. In addition, MTS will provide additional resources to the General Authority for International Markets and Fairs to organize trade fairs and subsidize the participation of Egyptian exporters, particularly small and medium size

ones, in these fairs. Finally, the International Trade Center, the Foreign Trade Sector, and the General Organization for the Control of Imports and Exports will receive support for buying international trade magazines, organizing and participating in conferences, and upgrading data bases.

Specific agribusiness product groups included in the implementation program are ready-made garments, leather products, processed foods, textiles and tapestries, and furniture and wood products.

MTS/EEPC and RDI collaborated in organizing a workshop to present its program of export development to representatives of private trade and business associations. MVE attended the workshop on June 13, 1999, at which Dr. Hamdi Salem made a presentation of EEPC's program and what services EEPC and other MTS agencies now offer to private exporters and associations.⁴⁷ Undersecretary Ayman Abdel Ghaffar also presented useful information, mainly about MTS commercial representation overseas.

Representatives of many associations attended the workshop, and they made useful comments and suggestions to MTS in the discussion that followed the formal MTS presentations. They welcome the MTS initiatives and want to be able to provide input to MTS and the High Council for Exports, chaired by H.E. Dr. Goweli. A detailed summary of key points covered in the meeting appears in the annex. A list of key agribusiness and commodity associations invited to the workshop appears in Table D2-1. Note that associations that sent a representative to the workshop are assumed to be aware of the change in MTS policy. While there were a few notable absences (HEIA⁴⁸, Cotton Egypt⁴⁹, the new industrial city associations⁵⁰), attendance was good. A fertilizer producer and exporter also attended the workshop, although not as a representative of a fertilizer industry association.

Table D2-1: Agribusiness Associations Attending the June 1999 MTS Workshop

Key Agribusiness Associations	Invited	Attended	Aware
Egyptian Seed Association	√	√	√
Horticultural Exporters' Improvement Association	√	x	x
Cotton Egypt (Egyptian Cotton Promotion Association - also awaiting legal approval)	√	x	?
Rice Federation (awaiting legal approval)	√	√	√
Egyptian Association of Medicinal and Perfumed Plants Producers, Graders and Exporters	√	√	√
Leather Tanning Chamber	√	√	√
Potato Growers Union	√	√	√
Egyptian Exporters' Association	√	√	√

Egyptian Textile Manufacturers' Federation	x	x	x
RMG Exporters' Association	√	√	√
The Egyptian Chamber for Food Industries	√	√	√
Egyptian Businessman's Association	√	x	?

Sources: Workshop attendance and MVE interviews with selected individuals.

Note: √ means yes; x means no; ? means MVE was unable to reach the appropriate individual for comment.

MVE asked those associations that did not attend if they had received any information from MTS regarding the policy change and were aware of its content. In several cases, representatives of these associations said that they were unaware of the new MTS policy of working more closely with the private sector. They did express an interest in learning more about MTS programs to promote exports and specific trade missions to target countries.

The June workshop represents an important and symbolic shift in GOE policy to work more closely with private trade and business associations. Most of the relevant agribusiness associations sent representatives to the workshop. They are also aware that EEPC and other MTS agencies plan to work in a more collaborative and consultative way with private associations. Information flow between MTS and the private associations has begun and should improve steadily over time.

Accomplishment

Benchmark accomplished. In using APRP tranche funds to develop a coherent and focused export development program, MTS, led by EEPC, has reached out to private associations to undertake a collaborative public-private program of export enhancement. Minister Goweli is fully apprized of and has approved this program.

Policy Benchmark

D3. Wastewater Reuse

The GOE will establish a policy to allow the owner/operators of private Build, Operate and Transfer (BOT) wastewater treatment plants adequate quantities of land for cultivation of long term crops.

Verification Indicator(s)

D3.1 Evidence that uncultivated land will be allocated for a sufficient period to allow cultivation of long-term crops.

Method

MVE monitored meetings and other activities of RDI and obtained relevant documents and instructions given by the Minister.

Analysis and findings

There have been two participatory workshops conducted in Luxor and Ismailia to develop approaches to investments in agricultural land based on wastewater. The workshops were attended by large numbers of investors. The recommendations of the workshop were approved by H.E. Dr. Wally.

H.E. the Minister approved the policy toward the use of treated wastewater, which was stated and submitted by the Undersecretary for the Environment and Afforestation in the MALR. This policy includes the commitments of MALR and related government organizations to specify areas for private companies to grow high-value tree crops using treated wastewater. This policy includes the establishment of a committee of representatives of the underscretariat, the private company, and related government organizations. It allows selling, long-term leasing, or using the land for a time period long enough to achieve profitability from the selected crops (see annex). HE's approval of this policy is attached. It instruct Dr. Saad Nassar to implement the procedure in coordination with the Undersecretariat.

Accomplishment

Benchmark accomplished

Policy Benchmark

D4. Plant Breeders' Rights

The GOE will issue: 1) regulations and procedures on Plant Breeders' Rights in accord with the relevant Uniform Performance of Variety (UPOV) convention; and 2) regulations for exclusive release of new seed varieties and inbred lines to private companies and cooperatives. These regulations will include a competitive bidding process with safeguards to ensure that one firm cannot gain access to a large percentage of new seed varieties.

Verification Indicator(s)

D4.1 Set of regulations in the form of a decree or written policy document on plant breeders' rights.

D4.2 Set of regulations in the form of a decree or written policy document providing for exclusive release of seed varieties from the government to the private sector.

D4.3 Evidence of public awareness based on survey of relevant groups.

Method

MVE monitored RDI efforts to help accomplish this benchmark. MVE obtained the relevant documents including meeting minutes, drafts of proposed decrees, and suggested changes in the seed section of Law 53 related to this benchmark.

Analysis and findings

This benchmark is a compound one, which we will address by indicator.

Indicator D.4.1 Set of regulations in the form of a decree or written policy document on plant breeders' rights

The MALR developed three articles to establish plant breeders' rights as part of an amendment to the seed sections of the Agricultural Law (Law 53). These articles define and establish the breeders' rights, as well as penalties for violation of the rights. The articles are currently under consideration by the People's Assembly as part of the broader amendment to the seed sections of Law 53.

The Central Administration for Seed Certification (CASC) has prepared a set of regulations on plant breeders' rights. These regulations are in the form of a draft decree, approximately ten pages long, that defines in detail the protocols for establishing and defending breeders' rights. A copy is in the annex. This set of regulations is based on the legal establishment of breeders' rights through the amendment to the Law. Therefore, the regulations cannot be officially issued until the People's Assembly passes the amendment to the Law.

CASC has been in close contact with the International Union for the Protection of New Varieties of Plants (UPOV) to ensure that the draft regulations developed by Egypt will be in conformity with the requirements of the UPOV convention and, therefore, in conformity with Article 27.3 (b) of the TRIPS Agreement of the World Trade Organization. Eng. Salah Abdel Wanis visited the UPOV office in Geneva in October, 1997 to discuss the draft regulations. UPOV responded by suggesting some modifications to the draft. Dr. Mohamed Hawary of CASC subsequently modified the draft regulations and traveled to Geneva to deliver and discuss them with the Vice Secretary-General of UPOV (October 29, 1998). UPOV suggested further changes, and CASC is now incorporating these edits into its draft regulations.

CASC has established and staffed a Directorate for Plant Variety Protection (Breeders' Rights). The Head of this Directorate is currently participating in a UPOV training course in the United Kingdom (June -July, 1999).

Indicator D.4.2. Set of regulations in the form of a decree or written policy document providing for exclusive release of seed varieties from the government to the private sector.

In March, 1999, RDI contracted with Dr. James Delouche to work with Dr. Abd El Salam Gomaa of the ARC to develop draft regulations for the release of new seed varieties developed by the ARC. The consulting team held a workshop and two meetings of an informal working group, including representatives of the private and public sectors. Through these

events the team developed and refined a draft policy document providing for exclusive releases of new seed varieties. This draft document and the notes from the workshop and meetings are published in RDI Report 62.

After these meetings, RDI sought and obtained the approval of Dr. Saad Nassar to create a formal working group to finalize the draft policy document. The working group consisted of: Dr. Abdrabboh Ahmed Ismail, Dr. Abd El Azim Tantawi, Dr. Abd El Salaam Gomaa, Dr. Mohamed Radwan, Eng. Roshdy Hassib (or his representative), and Dr. Samir Naggar (representative of the Seed Association).

The Working Group met on May 24 and June 1 to revise and agree upon the regulations. Changes were made to the regulations to satisfy all concerns and the draft document was nearly finalized. A copy is in the annex. On June 1, Dr. Abd El Azim Tantawi informed the group that His Excellency the Minister had seen the draft regulations and requested that Dr. Youssuf Abdel Rahman and Ali Sadaa join the Working Group. The enlarged Working Group met again on June 7 and June 24 to discuss the concerns of the new members and refine and edit the draft regulations.

The regulations include a competitive bidding process for exclusive releases of new varieties and safeguards to ensure that one firm cannot gain access to a large percentage of the new seed varieties. Once a particular company wins a competitive bid and is awarded an exclusive license for a new variety, that company is barred from competing for additional ARC varieties of the same crop for five years.

A meeting was held on June 30 to try to finalize the draft regulations, after which they will be presented to the Undersecretary for Agricultural Services and the Director of the ARC for approval. These discussions continue.

Indicator D.4.3. Evidence of public awareness based on survey of relevant groups

Regarding plant breeders' rights, the GOE has sponsored a number of events that have raised awareness of the issue and the Government's plans to establish these rights. These events include:

1. An Intellectual Property Rights Seminar and Course held in Cairo from April 18-22, 1999 under the co-sponsorship of MALR, MTS, APRP, SIPRE, and USAID. Dr. Marsha Stanton, the former head of the Plant Variety Protection Office in the U.S., delivered lectures on "Plant Variety Protection," "Plant Breeders' Rights and UPOV" and "Special Discussions on PVP." Over 75 representatives of public agencies and private companies participated in this course.
2. A UPOV Regional Workshop was held in Cairo on May 3 and 4, 1999, organized by UPOV and the WTO in cooperation with the GOE. Dr. Fawzy Naeim of the ARC and Mr. Barry Greengrass of UPOV chaired this workshop, with a welcoming address by Prof. Dr. Saad Nassar. Topics covered included: plant protection, the 1978 and 1991 Acts of the UPOV Convention, and "Advantages of Introducing Plant Variety Protection and of Becoming a Member State of UPOV". Dr. Mohamed El Hawary of CASC made a presentation on

Egypt's development of breeders' rights (See annex). Attendance exceeded 100 people from the private and public sectors.

3. The Third Egyptian National Seed Conference, held in Cairo on May 10-12, 1999 under the auspices of H.E. Dr. Youssuf Wally, also featured talks on plant variety protection systems and served to raise awareness about plant breeders' rights. Over 200 people attended this conference from both the private and public sectors.

In addition, the Egyptian Seed Association discussed the importance of breeders' rights in its newsletter (distributed to all major seed companies) and at several public workshops.

Regarding seed variety release policy, RDI developed and distributed a brief on variety release policies and held a workshop on March 11 to raise awareness about the issue. About 30 key government and private industry leaders attended. This was followed by two informal working group meetings, each attended by 14 to 18 people, mainly from private seed companies. Afterwards, four meetings of the formal working group in May and June served to promote further public awareness, as three companies from the Egyptian Seed Association participated actively in these meetings.

The Third Egyptian National Seed Conference also featured a presentation on the development of variety release policies in Egypt, which served to raise awareness among participants. The recommendations of the Conference, transmitted by Ali Seada to the Minister of MALR, specifically suggest: "Giving seed producers equal opportunities to obtain foundation seeds and hybrids from the output of the governmental research centers through a specific release system for varieties. Such a system should be transparent and fair to encourage private sector's participation in seed production and marketing."

In addition, the Egyptian Seed Association discussed the importance of variety release policies in its newsletter (distributed to all major seed companies) and at several public workshops.

Accomplishment

Benchmark partially accomplished

- D4.1 Fully. The enactment of the new Seed Law is verified under benchmark D5. The GOE has done all that is possible toward this indicator until the Seed Law is passed.
- D4.2 Partially
- D4.3 Fully

Policy Benchmark

D5. Draft Seed Law of 1997 Enactment

The People's Assembly will enact the draft Seed Law of 1997. (This is a carryover of the unmet portion of Tranche II Benchmark C.3)

Verification Indicator(s)

- D5.1 Ratification of the Seed Law by the People's Assembly.

Method

MVE contacted some of the People's Assembly members (members of the Agriculture and Irrigation Committee) to verify the steps of the final approval of the seed law.

Analysis and findings

One of the main concerns of GOE and the Ministry of Agriculture is the seed subsector. The GOE issued the first seed law (No. 5 for 1926) for cottonseed, and it was followed by other laws and decrees organizing and controlling the seed subsector, up to and including Law No. 53/1966, which combined the agricultural laws and decrees in one law.

Currently as part of the agricultural policy reforms, a proposal for a new seed law was presented to the People's Assembly. The new seed law proposal was presented to the Suggestions and Complaints Committee on February 16, 1998, and on April 13, 1998 it was approved by the Committee. The next step was to discuss it in the Agriculture and Irrigation Committee on May 10, 1998 as part of getting the joint approval with the legal committee. After this approval the proposal will be presented to the People's Assembly for final approval.

The above mentioned was the status for the seed law benchmark at the conclusion of Tranche II. MVE did not receive any evidence that the seed law was presented to the People's Assembly for final approval by the end of June, 1999.

Accomplishment

No progress

Policy Benchmark

D6. Hirsutum Cotton

The GOE will allow private sector companies which have remote reclaimed land to import Hirsutum cotton varieties for testing in those lands, pending evaluation of current trials by the Cotton Research Institute, ARC.

Verification Indicator(s)

D6.1 Written instructions which outline the rules and regulations regarding the importation of Hirsutum cotton seed for testing on investors' farms in reclaimed areas.

D6.2 Private sector operators confirm that these instructions have been officially announced.

Method

MVE interviewed and consulted a number of involved persons, either personally or through telephone calls, including RDI staff and Dr. Hussein Yehia, the Director of the Cotton Research Institute.

Analysis and findings

In April, 1998, MVE staff and APRP and USAID representatives visited East Owainat, which was the proposed site for planting and testing the Hirsutum cotton varieties. The site was ready, but there were delays in the arrival of the seed. The seed arrived in June, 1998 and underwent phytosanitary and germination testing at ARC before planting. The testing was completed in June, 1998. The seeds were to be planted in July 1998 in East Owainat on PPC member Eng. Hamed El Shiaty's farm.

This was the status for the Hirsutum cotton benchmark at the close of Tranche II. MVE did not receive any evidence that there are new instructions for private importation of hirsutum cotton for testing.

Accomplishment

No progress

Policy Benchmark

D7. Pesticide and Pesticide Company Licensing

The GOE will revise and reissue open and transparent regulations to register pesticides and will issue regulations to license pesticide companies and applicators. This benchmark will be completed by June 30, 2000. Verification indicators are set for June 30, 1999.

Verification Indicator(s)

D7.1 A complete review of the laws and regulations governing the pesticide industry. This review will include identification of the current weaknesses in the system of registering pesticides, especially the problem of permitting decrees to override decisions made on the basis of international risk assessment or scientific fundamentals, and proposals for addressing those weaknesses.

D7.2 MALR will develop written consensus with the private sector on an outline of regulations on pesticide registration.

D7.3 MALR will develop written consensus with the private sector on an outline of licensing procedures for applicators and companies.

Method

MVE interviewed the RDI team members involved in the review of the laws and regulations, and MALR officials who participated in the revision of the manual of regulations for pesticide registration.

Analysis and findings

Dr. Salwa Dogheim, Director of the Residue Analysis Lab for Pesticides and Heavy Metals, has circulated a draft of new regulations for pesticide registration. This draft has been reviewed by the public and private sectors, and final revisions are underway. Thus, a consensus has been reached by the public and private sectors on the nature of the new regulations for pesticide registration.

The review of the pesticide laws and regulations has been completed by RDI and will be published shortly. **MVE has received the final draft of this document. It includes summaries of decrees affecting pesticide use which were issued from the 1950s to the present, and an analysis of ministerial decree No. 663/1998 providing for agricultural pesticides.**

The review includes models proposed by MALR as guidelines for pesticide management in Egypt:

- **Model for request to test product for registration**
- **Recommendation notification model**
- **Label Model**
- **Model for registration certification**
- **Model for requests to import agricultural pesticides**
- **Model for license to import pesticides**
- **Model for requesting license for pesticides manufacturing factory**
- **Model for license to establish a pesticide factory**
- **Model for requesting agricultural pesticide trading license**
- **Model for pesticides trading license**
- **Model for extremely and high hazardous pesticides**
- **Rules and conditions for opening pesticides shops and stores**
- **Model for requesting analysis of imported or locally formulated pesticides**
- **Model for certificate of analysis**
- **Approval for license to clear pesticides from customs**
- **Importing license for agro-pesticides**

MVE has also received the draft manual of regulations for pesticide registration, handling and control in Egypt, which are based on ministerial decree No. 663 of 1998. The manual includes the registration requirements, the renewal of the registration, the application form for registration of a chemical pesticides, and the protocol for testing package efficiency and its conformity with the technical standards. The manual includes technical standards for :

- **Toxicity**
- **Allowable daily intake**
- **Residuals**
- **Environmental chemistry and rate of toxicity**

The manual also includes a number of forms for approval of pesticides, labelling, uses, application mode, name of the pesticide, chemical composition, safety measures, first aid, anti-poisoning drugs, pre-harvested (safety) period, pesticide classification according to the WHO, pre-cautions, producers' address, importers' address, date of manufacturing, expiry date, operation number, lot number, and domestic registration number.

The manual has a number of annexes, such as the conditions to be fulfilled in pesticide stores, application for pesticide analysis (for clearance from the customs or for approval of handling a locally-produced pesticide), certificate of analysis, and a specimen form for clearance from customs.

Accomplishment

Benchmark accomplished. This is a two-year benchmark. The revision of the pesticide registration regulation is significantly ahead of schedule, while the revision of licensing regulations is somewhat behind.

Policy Benchmark

D8. Support of Private Sector Research and Extension

The MALR will implement a phased plan for support and/or transfer of specified research and extension activities to the private sector. The plan will include at least:

- a) Specification of the research and extension functions which the public sector will enable the private sector to provide in one pilot governorate.
- 2) Administrative and management structures and rules to ensure MALR inspection, certification, licensing and quality control for services and information offered by the private sector.

Verification Indicator(s)

D8.1 A phased plan approved by the Minister, including the elements specified in the benchmark.

D8.2 Initiate implementation of the plan in at least one pilot governorate.

Method

Because of delays in implementing this benchmark, the MVE Unit relied largely on information supplied by the RDI Unit (including meeting notes in RDI's TAMIS information system) in June, 1999.

Analysis and findings

The Government of Egypt has selected Ismailia as the primary governorate for the pilot test of this benchmark, and Gharbia as the back-up governorate. MALR staff, with assistance from RDI staff, have met with officials from the governorates of Ismailia and Gharbia and representatives from the private sector. The group met to begin preparing the phased plan for the transfer of some research and extension activities to the private sector.

Some of the issues discussed in the field meetings with farmers and others include:

- The role of private extension agencies
- The issue of cost recovery
- Focus on export vs. traditional crops
- Coordination and mutual exchange of the information between both parties (private & government extension)
- Extension officers specialized in certain crops (e.g. rice, cotton, vegetables, medicinal plants, etc.)

Eng. Abu Raia, the Director-General of Agriculture in Gharbia, said that the private sector established its own extension bodies that depend on the government extension officers. This is the case especially for exporters and big growers, who have forward contracts with agribusiness companies in Gharbia (e.g. vegetable processing plants, medical plants, etc.). Some good extension officers were able to join such firms, either by quitting Government service or by working part-time.

Some farmers claimed that they have the right to have free government extension services.

A farmer and milk producer said “the dairy companies have private extension officers who are looking for their companies’ interests. These companies provide technical and financial support, and their extension officers cooperate with all types of dairy farms, as well as with the government extension officers. They also provide brochures and advice, as well as conducting meetings and seminars for improving the quality of milk and other products. So the same system can be applied for other farm activities.”

A subcommittee has been constituted to prepare the plan and is carrying out this work. It is likely that 2-3 months will be required to complete a careful and feasible plan. The team intends to then present this plan to an appropriate audience through a workshop or similar forum.

Accomplishment

Benchmark partially accomplished

E. FOOD SECURITY AND POVERTY ALLEVIATION

Policy Benchmark

E.1 Ration-Card Holders System

The GOE (MTS) will revise the criteria and procedures of selecting ration card holders in order to target the existing ration system to needy people.

Verification Indicator(s)

E1.1 The Ministry of Trade and Supply will develop and approve criteria and procedures to convert green ration cards into red ration cards.

E1.2 Initiate implementation of the new criteria and procedures.

Method

Dr. Adel Mostafa participated in biweekly task force meetings. MVE also had periodic discussions and updates from Dr. Akhter Ahmed.

Analysis and findings

In the current ration card subsidy system for sugar and cooking oil, the majority of wealthy Egyptians carry the higher-subsidy green ration cards, while some of the poorest Egyptians hold the lower-subsidy red ration cards. Targeting the higher-subsidy green ration cards to the poor and the lower-subsidy red ration cards to the non-poor will increase equity in the system, and will reduce the cost of subsidies. This requires identifying the poor and the non-poor according to their income levels. Gauging household income accurately through an administrative form, however, is very difficult. For this reason, the Food Security Research Unit (FSRU) of APRP has assisted MTS to develop a list of income proxy indicators for households in different governorates. These are based on regression analysis of the household survey data collected in 1997 by FSRU.

The FSRU tested the preliminary indicators of household income for their validity by re-surveying 380 households in seven governorates in February-March, 1999. These households were selected from the sample of households surveyed by FSRU in 1997. Based on this research, the proxy indicators have been revised.

His Excellency Minister Ahmed Guweili of MTS approved a task force to examine various food subsidy issues, and its MTS members, in November, 1998. The task force has been meeting twice per month to review the new targeted method developed by FSRU. The task force has developed a new form that includes the proxy indicators. The MTS will use this form to collect information in order to determine eligibility for the green and the red ration cards. The MTS will print about 13 million forms after pre-testing the new form in some selected locations.

The task force has submitted the new form to HE Minister Goweli for his approval. (Old and new forms are contained in the annex.)

The proxy indicators are incorporated as questions on the revised form, including:

- Household size
- Highest number of education years
- Number of rooms
- Electricity bill
- Land cultivated in feddans
- Owned phone
- Owned car or other vehicles

These indicators are in addition to the other page of identification questions. There is also a separate question on income.

MTS plans to pretest this new form beginning in August 1, 1999 and afterwards put it into general use for the whole country.

Accomplishment

Benchmark accomplished

ANNEX